

Company Report

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Strategy Advisors Inc.

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Solve Social Issues by Leveraging External Capital to Create Added Value. Combining Hardware and Software to Achieve Rapid Growth in Hotels, Logistics and Healthcare

The company has grown rapidly with a unique business model that advocates solving social issues and utilizes external capital from investors. Operating profit has increased 12.2 times over the past five years and its stock price has increased 10.6 times over the same period. Currently, the company is focusing on hotels, cold storage warehouses and hospice housing, as well as a housing business in Dubai.

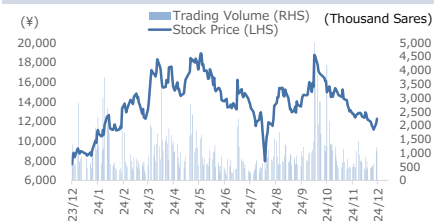
President and CEO Koshiro Komoto and Chairman and Director Hiroyuki Ogawa co-founded and developed the company with the desire to create added value to solve social issues. This desire is expressed in the company philosophy, "Turning Challenge into Value." The company's corporate DNA can be summarized as "the thorough pursuit of optimization through the use of external capital". People with a strong adventurous spirit who resonate with the management philosophy have come together and the company's corporate culture of creating unique added value by combining hardware and software is difficult for other companies to imitate.

Hotels are focusing on the facilities for large numbers of people and are implementing thorough labor-saving measures through digital transformation. Cold storage warehouses are experiencing a supply shortage. In addition, demand for rebuilding is also growing due to the shift from alternative fluorocarbons to natural refrigerants. Hospice homes are developing comfortable facilities in good locations amid a shortage of medical facilities such as palliative care facilities.

In FY8/2024, the company achieved a significant increase in earnings as expected. In FY8/2025, the company expects net income to increase by 99.2% YoY. In the announced second medium-term management plan (FY8/2025 to FY8/2029), the company aims to increase net income to ¥50 billion, ten times higher than in FY8/2024. While the markets for all of its main businesses are growing, the company's share is still small and there is a lot of room for growth.

The stock price rose significantly but has been correcting since mid-October. The PER based on the company's forecast for FY8/2025 is 13.6 times, while the PER based on the company's target for FY8/2026 is 9.1 times, which is not high. High profit growth keeps the valuation attractive. The equity financing announced on October 17th is expected to lead to profit growth due to strong demand for funds. The trend of stock prices rising in line with expanding earnings is likely to continue.

Stock Price & Trading Volumes (One Year)



Source: Strategy Advisors

Key Indicators

Stock Price (17/12/2024)	12,260
52-Week High (20/5/2024)	18,910
52-Week Low (11/12/2023)	7,130
All-Time High (20/5/2024)	18,910
All-Time Low (26/12/2018)	594
Shares on Issue (mn)	9.84
Market Capitalization (¥ bn)	120.6
EV (¥ bn)	151.4
Equity Ratio (8/24 Actual, %)	34.6
PER (8/25 CoE, Times)	13.6
PBR (8/24 Actual, Times)	4.5
Dividend Yield (8/25 CoE, %)	2.0

Note: High and low prices are based on closing prices. PER is calculated based on diluted share count.

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales	YoY Change	Operating Income	YoY Change	Ordinary Income	YoY Change	Net Income	YoY Change	EPS	DPS
	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥)	(¥)
8/2020	8,008	49.6	326	-53.3	180	-71.8	134	-69.1	21.7	10.0
8/2021	14,295	78.5	1,328	306.9	1,037	475.6	793	489.9	121.4	20.0
8/2022	20,780	45.4	2,141	61.2	1,732	67.0	1,018	28.3	132.9	30.0
8/2023	37,282	79.4	4,442	107.4	4,119	137.8	2,050	101.4	253.2	60.0
8/2024	65,685	76.2	8,537	92.2	7,860	90.8	5,020	144.8	541.7	170.0
8/2025 CoE	95,000	44.6	16,500	93.3	15,000	90.8	10,000	99.2	1,016.4	240.0

Note: 1:2 stock splits were carried out in September 2019 and September 2021. EPS and DPS are after adjustment.

Source: Company Data. Compiled by Strategy Advisors

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Executive Summary

Advocating the Solution of Social Issues

Kasumigaseki Capital is a real estate consulting company that has grown rapidly with a unique business model that advocates solving social issues and utilizes external capital. Operating profit has increased 12.2 times over the past five years and the stock price has increased 10.6 times over the same period. Currently, the company is focusing on the development and operation of hotels, cold storage warehouses and hospice housing in Japan. Overseas, it is developing a housing business in Dubai. Founded in August 2011, the company was listed on the Tokyo Stock Exchange Mothers market in November 2018. It was listed on the TSE Prime market in October 2023.

The Corporate DNA is to "Utilize External Capital to Thoroughly Pursue Optimization"

President and CEO Koshiro Komoto and Chairman and Director Hiroyuki Ogawa co-founded and developed the company with the desire to create added value to solve social issues. This desire is expressed in the company philosophy of "Turning Challenge into Value." The company's corporate DNA can be summarized as "utilizing external capital to thoroughly pursue optimization".

A Unique Corporate Culture and a Team of People with a Strong Adventurous Spirit Make the Company Difficult to Imitate

The company has attracted talented people with a strong spirit of challenge and the ability to break through, all of whom share the management philosophy of solving social issues. In addition, the company has a unique corporate culture that focuses on areas where social needs are not being met by supply and rigorously pursues optimization by combining hardware and software. These characteristics are difficult for other companies to imitate.

Rising Earnings & Valuations are the Equity Story

This is expected to lead to sustained high growth in earnings and it is highly likely that the company's valuation will remain relatively high compared to Japanese real estate investment companies and major developers. In addition, in the medium to long term, the high valuation of Blackstone (BX NYSE), a major global alternative investment company, can also be used as a reference. Increases in earnings and valuation are an equity story that is expected to lead to an increase in the company's stock price.

The Main Sources of Revenue are Profits from Land Sales, Project Management Income, Contingency Fees & Asset Management Income

The company purchases land with its own funds but sells it to a development fund about six months after drawing up a development plan, so it can recover its capital at that stage. After that, it continues to earn income as a project manager during the development stage. After completion, it is sold to a long-term fund and it receives a contingency fee for the exceeds investors' expected profits. It also earns income from asset management of real estate funds. Because it circulates funds at high speed, the capital burden is relatively small and risks due to macro fluctuations, etc. are also reduced.

Unique Developments in Hotels, Refrigerated Warehouses & Hospice Housing

The firm noticed that hotels are not addressing the demand for accommodation needs for larger groups of people. They are reducing the number of staff through thorough digital transformation to keep the average price per guest down. The brand that began with "fav" has also expanded to "FAV LUX" and "seven x seven". Separately, there is a shortage of cold storage warehouses amid rising demand for frozen foods. There is also a demand for rebuilding, due to the shift from alternative fluorocarbons to natural refrigerants. Finally, they are developing comfortable hospice homes in good locations amid a shortage of medical facilities such as palliative care facilities.

Aiming for Net Profit of ¥50 Billion in FY2029

As expected, the company achieved significant increases in sales and profits in FY8/2024. Net income was ¥5.02 billion, 2.4 times higher YoY. The company's forecast for FY8/2025 is that net income will reach ¥10 billion, a 99.2% increase YoY. In the second medium-term management plan (FY8/2025 to FY8/2029), which was announced at the same time as the financial results, the company aims for net income to reach ¥50 billion, about 10 times the actual result in FY8/2024. While the market for each of its main businesses is growing, the company's share is still small and there is a lot of room for growth.

Expanding Business Performance is Expected to Continue to Boost Stock Prices

After a large rise in stock price, it has been correcting since mid-October. Recently, stock prices and valuations have been correcting. The PER based on the company's forecast for FY8/2025 is 13.6 times, and the PER based on the company's target for FY8/2026 is 9.1 times (both calculated based on the number of diluted shares), which can be said to be at a low level considering the outlook for continued high profit growth. The equity financing announced on October 17th is expected to lead to profit growth as it will be used as funds for growth. There is a high possibility that the trend of stock prices rising in line with business expansion will continue.

1. A Real Estate Consulting Company Dedicated to Solving Social Issues

1) Company Overview

The Company Solves Social Problem

Kasumigaseki Capital is a real estate consulting company that aims to solve social problems by focusing on what is needed by society and in growing demand, but is in short supply and seeking business opportunities in these spaces. Their management philosophy, "Turning Challenge into Value" reflects their basic view of business management. Although they are a developer that utilizes real estate funds, they also handle operations themselves if necessary, placing emphasis on increasing the value of the real estate and related businesses.

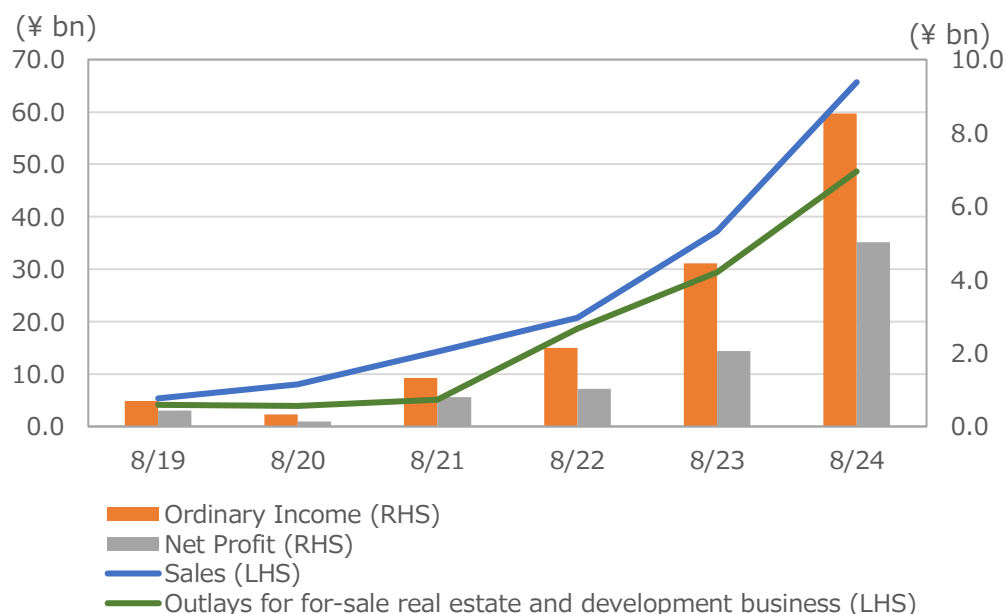
Focus on Hotels, Logistics, Healthcare and Overseas

Currently, the company is focusing on four areas: hotels, logistics, healthcare, and overseas markets. In hotels, the company commercialized hotels for large groups, such as families and groups of friends, for long-term stays; and has since expanded its brand. It is providing hotels with elaborate designs while thoroughly reducing manpower through digital transformation and keeping costs down. In logistics, the company has recently focused on development of cold storage warehouses and is currently building an automated cold-chilled warehouse. In healthcare, the company is developing hospice housing, focusing on providing comfortable facilities in good locations. The company is also looking to expand its overseas business. It is currently operating in Dubai.

Business Scale Expands Rapidly

The company's earnings are expanding rapidly. Sales increased 12.3 times from ¥5.35 billion in FY8/2019, the first year of its listing, to ¥65.69 billion in FY8/2024, and operating profit increased from ¥700 million to ¥8.54 billion. The reasons for this high growth include the fact that the company targets areas where the market is growing and the company's excellent knowledge and skills in planning, design, fund formation, etc. Inventory is a leading indicator of the company's performance. As will be described later, the company purchases land, formulates a development plan and makes the necessary coordination before selling the land to a development fund, etc. From the time the land is purchased until it is sold to a development fund, real estate for sale and development project expenses are recorded as inventory on the balance sheet. Therefore, an increase in inventory indicates that land purchases are expanding smoothly, which will lead to an increase in sales and profits thereafter. Inventory at the end of FY8/2024 was ¥48.7 billion, an increase of ¥19.3 billion from the previous fiscal year.

Figure 1. Kasumigaseki Capital's Earnings Trends



Source: Company Data. Compiled by Strategy Advisors

Figure 2. Project Pipeline and AUM

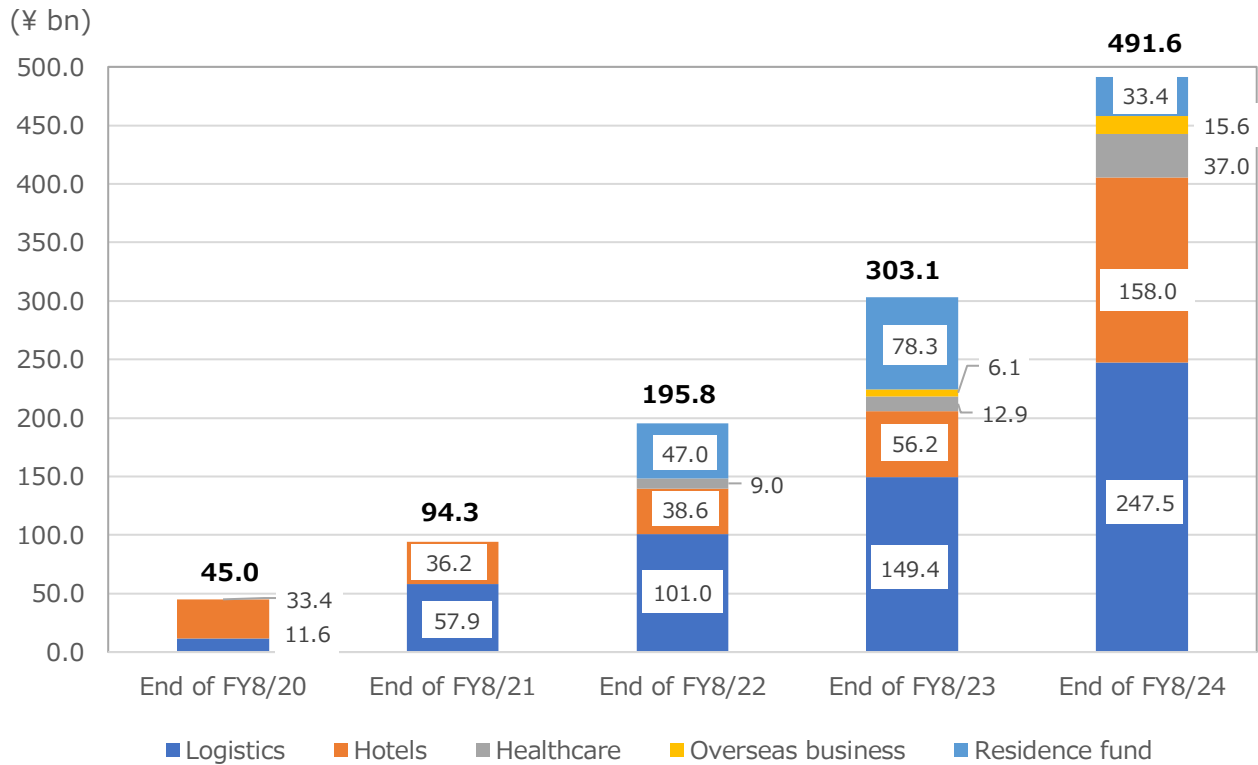
		End of FY8/2023		End of FY8/2024		Increase/ decrease amount	Increase/ decrease rate
		No. projects	Business scale* (billion yen)	No. projects	Business scale* (billion yen)		
Distribution/Logistics	LOGI FLAG	15	149.4	19	247.5	+98.0	+65.6%
Hotels	FAV	23	56.2	44	158.0	+101.8	+181.1%
Healthcare	CLASWELL	7	12.9	15	37.0	+24.1	+186.8%
Alternative Investment	Overseas	4	6.1	8	15.6	+9.5	+155.7%
	Residence Funds	42 (6 funds)	78.3	13 (4 funds)	33.4	(44.9)	(57.3%)
Total		91	303.1	99	491.6	+188.5	+62.2%

*The business scale is the cost price based total amount. Projects include some undisclosed projects.

Note: Number of projects and value are the total of pipeline (land secured) and AUM (construction started/completed)

Source: Company Data

Figure 3. Project Pipeline and AUM Trends



Note: Total of Pipeline (land secured) and AUM (construction started/completed).

Source: Company Data. Compiled by Strategy Advisors

2) History

Founded by Chairman Hiroyuki Ogawa & President Koshiro Komoto

Kasumigaseki Capital was essentially founded by Chairman Hiroyuki Ogawa and President Koshiro Komoto. As of the end of August 2024, the company's shareholder composition is as follows: Chairman Ogawa is the largest shareholder with 23.6% and President Komoto is the second largest shareholder (excluding custody) with 8.3%. The two men had previously worked together at an investment fund and know each other well.

Renovating a Shopping Center in Miyagi Prefecture and Expanding into Solar Power Generation

In September 2011, a limited liability company, FORTE, was established with the objective of acquiring and revitalizing the FORTE shopping center in Miyagi Prefecture, which had been damaged in the Great East Japan Earthquake and the company used this as a base to expand its business. FORTE took advantage of the Feed-in Tariff (FIT) system for industrial solar cells, which began in 2012, to install solar panels on the roof of the shopping center and begin selling electricity.

Building a Business Model that Utilizes External Capital for Renewable Energy

Subsequently, the company started to fully engage in the renewable energy business, mainly focusing on solar power but also wind power. In this business, the company created a business model in which it handles all aspects of the process, including collecting and acquiring information on land, designing power generation facilities, obtaining permits and licenses, detailed design and construction and fundraising; and then adds value before selling the land to investors such as development funds. However, the renewable energy business itself has become less attractive as a business with the purchase price being reduced under the FIT system and the company is not currently conducting any new developments.

Started Hotel Business for Large Groups

In 2014, the company was reorganized from a limited liability company to a joint-stock company and in 2015, the company name was changed to Kasumigaseki Capital. In November 2018, the company was listed on the Tokyo Stock Exchange Mothers market. The company has expanded its know-how and business model cultivated in renewable energy to other businesses, such as developing condominiums, but gradually began to focus on hotels for larger groups.

Expanding into Logistics Business Amid the COVID-19 Pandemic

In 2020, as the COVID-19 pandemic hit the large-scale hotel business, the company decided to launch a logistics business centered on cold storage warehouses. In particular, as demand for frozen foods was expected to increase in the medium to long term and as the need to switch from fluorocarbons and alternative fluorocarbons to natural refrigerants was expected to lead to increased demand for rebuilding warehouses; the company decided to develop its business by concentrating resources on refrigerated and frozen warehouses. In June of the same year, the company established a logistics division and officially launched the business, with the decision and subsequent actions being taken extremely swiftly.

Started a Healthcare Business Centered on Hospice Housing

In December 2021, the company launched a healthcare promotion division and began developing hospice housing for end-of-life care. While the number of hospital beds in hospitals and clinics is expected to decrease in the future due to issues such as succession issues at medical institutions and a decrease in the number of medical workers; the demand for hospices is expected to increase due to the aging population, so the company is proceeding with this in line with its policy of contributing to solving social issues.

Developing Overseas Business in 3 Domestic Regions & Dubai

Thus, the three areas of hotels, logistics, and healthcare are currently the main fields of the company's real estate consulting business in Japan. In addition, the company also conducts overseas real estate business, mainly in Dubai. In April 2022, following the reclassification of the Tokyo Stock Exchange, the company moved from the Mothers Market to the Growth Market and then against in October 2023, moved to the Prime Market.

Figure 4. Summary of Kasumigaseki Capital's History

September 2011	Established FORTE LLC with the objective of acquiring and revitalizing the shopping center FORTE (Miyagi Prefecture), which was damaged in the Great East Japan Earthquake.
June 2013	The company installed 572kW solar panels on the roof of a shopping center and began selling electricity, launching a natural energy business.
September 2014	Started real estate consulting business
August 2015	Company name changed to Kasumigaseki Capital Co., Ltd.
November 2018	Listed on the Tokyo Stock Exchange Mothers Market
December 2021	Logistics subsidiary LOGI FLAG DEVELOPMENT Co., Ltd. is established.
April 2022	Transitioned from the Mothers Market to the Growth Market due to a market classification review by the Tokyo Stock Exchange.
October 2023	Changed to Tokyo Stock Exchange Prime Market

Source: Company Data. Compiled by Strategy Advisors

2. President Koshiro Komoto's Profile & the Company's DNA

After Graduating from University, He Took a Two-Year Break Before Joining a Construction Company. He Discovered the Appeal of Investment Funds

President Koshiro Komoto was born in 1973 and is currently 51 years old. After graduating from university, he chooses to work part-time for two years, rather than going directly into full-time employment. At that time, he had a negative view of the world and avoided facing it head-on. After that, through a recruitment agent, he joined construction company Meiho Facility Works in 1999 (unlisted at the time, but now listed on the Tokyo Stock Exchange Standard, Ticker Code 1717). His training came on the job and was based on hard work. At this time, he learned about real estate funds through customers, and realized how interesting they were, so he went on to work for GLOVANCE, which was involved in real estate investment funds and then for Grosvenor Fund Management, a British real estate company.

The 2008 Financial Crisis was a Turning Point

He says that the big turning point for him was the financial crisis of 2008. It was a shock that completely shattered his previous values and while he felt powerless, it also became an opportunity for him to face society head on. At the same time, he witnessed how a company without the financial strength could easily go under in a major economic shock like the financial crisis, and this strengthened his belief that he had to conduct business in a way that would prevent the company from going bankrupt even in the event of such a shock. This seems to have led to the risk management style at Kasumigaseki Capital today.

President Komoto and Chairman Ogawa Create a Company Structure to Expand the Business and Full-Scale Expansion Began

President Komoto and Chairman Ogawa worked together at GLOVANCE from 2005 to 2006 and were became close friends. Even after they went their separate ways, they continued to share information with each other and run their own businesses. Subsequently, they decided to work together to create a larger organization to expand their business, rather than running multiple small companies. Using FORTE LLC, a shopping center operator in Miyagi Prefecture as a base, they expanded into the renewable energy business, including solar panels and in 2014 entered the real estate consulting business.

The Desire to Create Added Value Using Real Estate Funds as a Tool

When President Komoto and Chairman Ogawa founded the company, they felt that the real estate fund business had reached a dead end, and shared the desire to create added value that could contribute to society. However, they also knew that using real estate funds as a tool to achieve this would be effective. The solar power generation business they initially worked on was a perfect fit for the model of using funds. They would purchase land in rural areas with a small investment, create a development plan, add added value by obtaining permits and licenses, and then sell it to a development fund. They had no choice but to do this at first because they did not have the funds, but they found that it worked well as a business. It could be said that this was the origin of Kasumigaseki Capital's subsequent business model.

Solving Social Issues Comes from the Essence of Business

Regarding the background behind the company's claim to be a social problem-solving company and its corporate philosophy of "Turning Challenge into Value," President Komoto stated that it is an idea that naturally comes to mind when you think about what work is and what a company is for, and that it is nothing special. He also stated that if you tackle social issues head-on, those around you will support you, making it easier to move forward with your business. This is an idea that goes back to the origins of business, and it is thought to have become the company's corporate culture and is shared by employees.

Generational Responsibility for the "Lost Thirty Years"

President Komoto also believes that while his grandparents achieved postwar reconstruction and his parents achieved rapid economic growth, his generation bears the responsibility for "Japan's Lost Thirty Years." This thinking also seems to be connected to the company's corporate culture of working to solve social issues.

3. Revenue Model

Formulate the Development Plan, Sell the Land to Development Funds & Investors

The company's revenue model is unique and can be said to be exclusive to the company. First, it acquires land and adds value by formulating its own development plans. It then sells it to development fund investors. In some cases, real estate companies, leasing and other companies become investors without forming a fund.

Sales Profits and Project Management Fees are Earned

As a result, ownership of the property is transferred to the development fund and it is removed from the company's balance sheet, but the company continues to manage the construction and development projects, handle leasing and introduce buyers. As a result, the company receives project management fees from development fund investors and companies.

After Completion, Sell to the Core Fund and Receive a Contingency Fee. Then Receive an Asset Management Fee

Once the building is completed, the property is sold by the development fund to a real estate fund (long-term fund). If the property is sold at a price that exceeds the development investor's expected profits, Kasumigaseki Capital receives a contingency fee. In addition, the company receives asset management fees by performing asset management services for the long-term fund.

Four-Stage Profit Opportunity. Rapid Turnover of Your Own Funds in About 6 Months

Kasumigaseki Capital's revenue opportunities come in four stages: 1) profits from sales to development funds, 2) project management fees from managing costs and construction schedules during construction, 3) contingency fees when selling to long-term funds and 4) asset management fees thereafter. The company recovers its capital in about six months from securing the land to selling to a development fund, so it can use that capital for the next project to significantly improve its capital turnover rate.

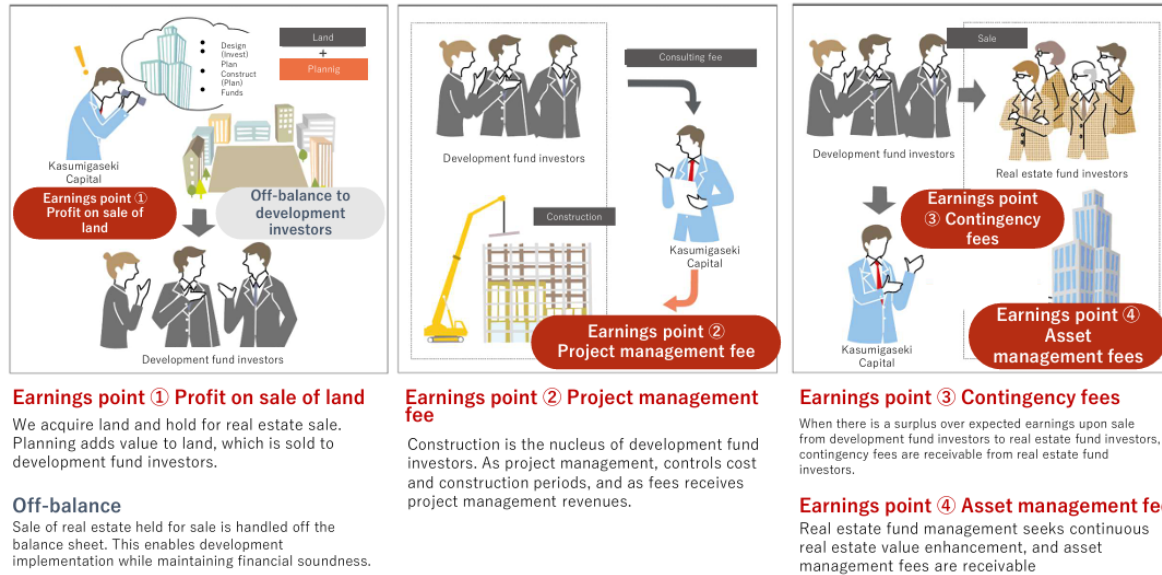
High Capital Efficiency & Reduced Risk

In addition, because the investment can be recovered in a short period of time, risks such as macroeconomic conditions and interest rate trends can be reduced. Compared to a typical developer who handles everything from land procurement to development and construction and then sells or rents the completed property; the average profit margin per property is thought to be smaller, but because the capital turnover rate is overwhelmingly high, it is estimated that the amount of profit made during the same period is comparable to or even higher in many cases.

Figure 5. Kasumigaseki Capital's Business Model and Overview

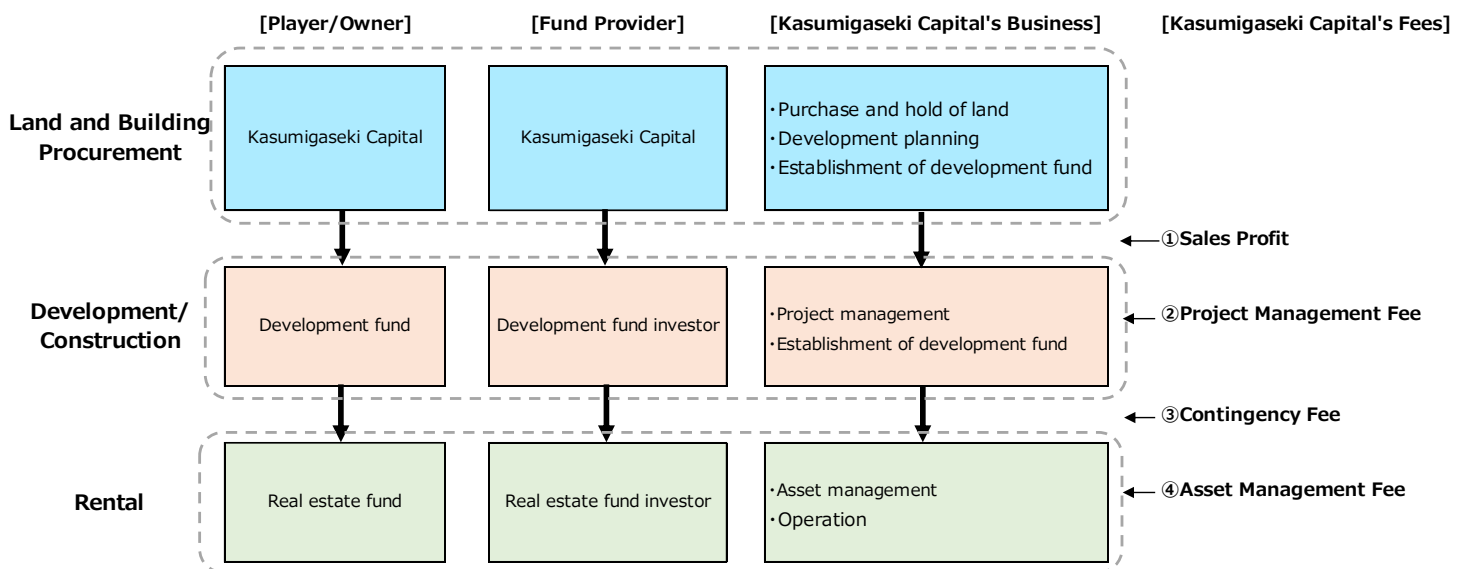
Business Models: Summary

Independent business models provide "investment platforms" for real estate development



Source: Company Data

Figure 6. Kasumigaseki Capital Project Process



Note: Kasumigaseki Capital in the above diagram includes subsidiaries.

Source: Company Data. Compiled by Strategy Advisors

The Development Fund Will Cover the Construction Costs of the Property

The key to the above transactions is the sale to a development fund. The investors in development funds vary depending on the property, including real estate companies, construction companies, business companies and financial institutions. In many cases, a special purpose company that serves as a fund is established to solicit investors. There are also an increasing number of cases in which real estate companies, construction companies, leasing and other companies act as investors, either alone or in combination.

Land Acquisition Conditions and the Quality of the Development Plan are Important

When selling to a development fund, the extent to which the company can obtain profits from the sale will depend on the conditions of land acquisition and the attractiveness of the development plan. The company has accumulated information on land nationwide through its renewable energy business and has built relationships with local businesses, so it is believed that it is able to acquire relatively good properties under good conditions when it comes to land acquisition. In addition, the company's diverse and talented personnel are likely to make the plans attractive. Furthermore, hotels for large groups, cold storage warehouses, and hospices are all in high social demand, contribute to the SDG's, and are themes that are in line with the times, so it is believed that funds will find it easy to raise funds. Initially, the company had difficulty forming a fund due to a lack of track record, but today it can be said that it has built up a track record that has earned it the trust of investors.

Real Estate Funds (Long-Term Funds) Own Properties & Earn Stable Rental Income

Real estate funds are formed with the goal of renting out completed properties and obtaining stable rental income. Since the completion date varies for each project, in many cases private placement funds such as bridge funds and pre-REIT funds are formed to hold properties for a certain period of time before transferring them to the final long-term real estate fund. Kasumigaseki Capital manages the project for properties using funds from a development fund and then sells them to long-term funds (including bridge funds and pre-REIT funds) that it has formed. Thereafter, the company handles asset management and receives management fees. It also plays the role of a sponsor, as it would in a REIT.

In the hotel business, the first 10 properties were sold to FAV PRF1, a private placement fund established by the company in February 2023. In addition, four large-scale hotels were sold to FAV PRF2, a private placement fund established by the company in June 2024. In the logistics business, the transition to the bridge scheme has been completed for four properties currently in operation.

KC2.0, a Joint Venture Business Model with Mitsubishi HC Capital

In the logistics business, the company has also set up a model called KC2.0 that utilizes partnerships. The company has established LOGIFLAG DEVELOPMENT (66% invested by Kasumigaseki Capital) in a joint venture with Mitsubishi HC Capital (8593 TSE Prime), LOGIFLAG DEVELOPMENT acquires the land, establishes a special purpose company (SPC) and transfers the land to the SPC.

It obtains non-recourse loans from financial institutions and acquires funds (presumably mainly mezzanine financing) from its partner Mitsubishi HC Capital to develop the property. LOGIFLAG DEVELOPMENT manages the project during the development stage. Once the property is completed and sold to a long-term fund, LOGIFLAG DEVELOPMENT earns a profit on the sale. Kasumigaseki Capital receives 66% of its investment in project management fees and profits on the sale.

Figure 7. Development Funds and Long-Term Funds (General Case)

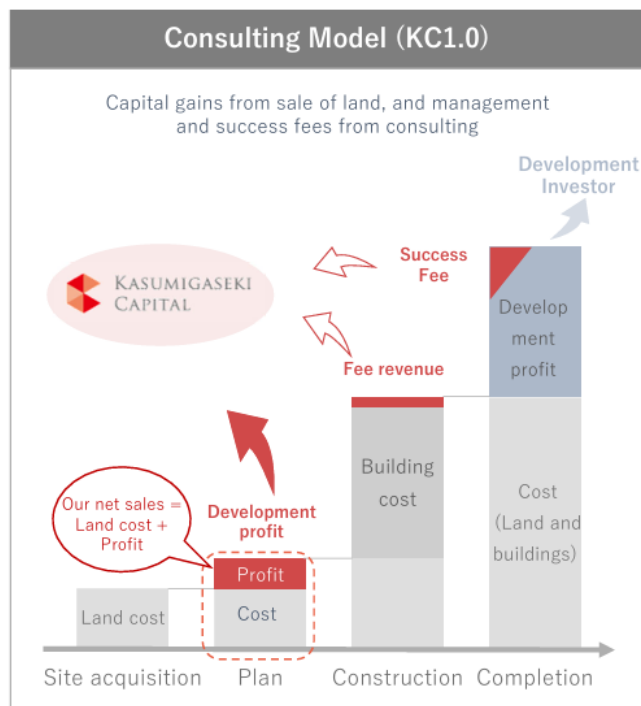
	Development Fund	Long-Term Fund (Bridge Fund, pre-REIT Fund, REIT)
Risk	Real estate development risk	Real estate ownership risk
Investment Period	Development period (2-3 years)	Bridge Fund: A few months to 2 years Pre-REIT Fund: around 5 years REIT: Unlimited
Target Investors	Leasing companies and various financial institutions, Real estate companies, Infrastructure companies, etc.	Leasing companies, Real estate companies, Infrastructure companies, etc., Financial institutions, Wealthy individuals

Source: Prepared by Strategy Advisors based on Interviews & Various materials

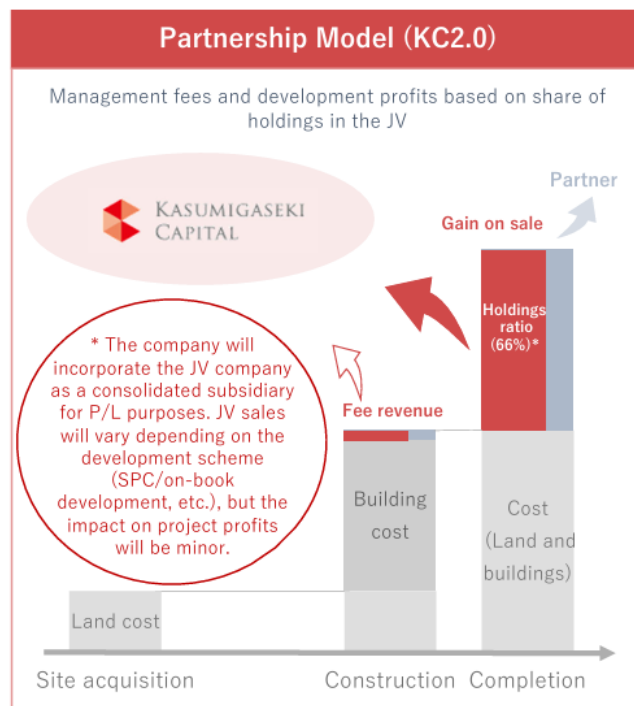
In Reality, Land Purchases are Often Made through Kasumigaseki Capital

In KC2.0, the subsidiary LOGIFLAG DEVELOPMENT is responsible for procuring the land, but in reality, Kasumigaseki Capital appears to be acquiring the land using its own funds in many cases. This is likely due to the fact that the company can acquire land by making full use of its information network and that it can make quick decisions in the same way as for land for non-logistics purposes. For this reason, it is believed that a profit on sale is generated at the stage of selling to the limited liability company, which is the SPC for development.

Figure 8. KC1.0 and KC2.0 Business Models



Rapid monetization and management with high capital efficiency



Monetization is slower, but creates greater total revenue.

*The partner's 34% share is adjusted in net income as income attributable to noncontrolling interests.

Source: Company Data

At Present, the Largest Gain is from Selling Land

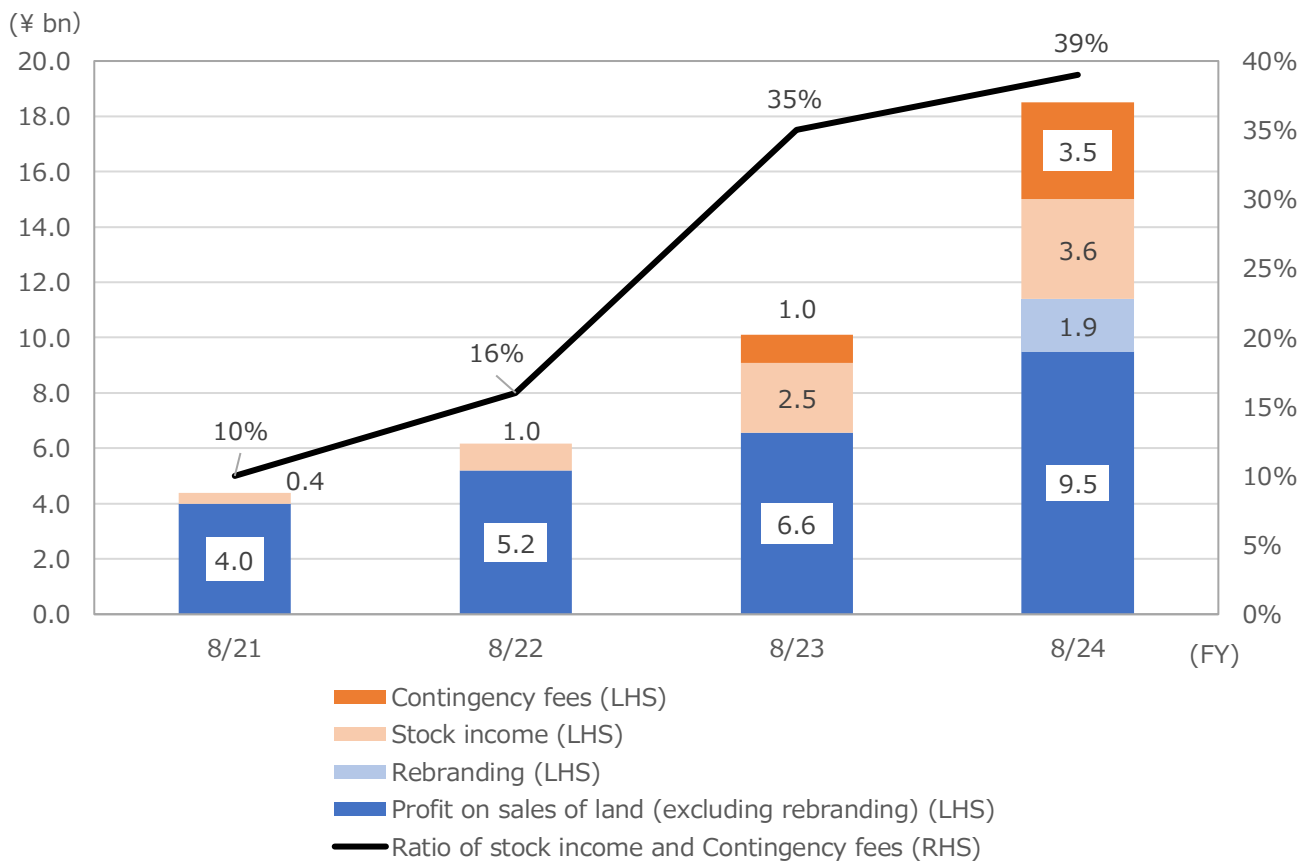
Figure 9 shows gross profit by revenue portfolio for the company's revenue composition. Currently, gains from land sales are the largest and they continue to expand significantly. A hotel rebranding project began in FY8/2024, and there appears to be an increasing number of cases where both land and buildings are purchased, but the rebranding shown in the figure is a case where only the land is sold after the project plan is formulated. Stock income, consisting of project management fees and asset management fees, has also increased significantly recently. At present, it is estimated that project management fees account for the majority of stock income, but asset management fees are also likely to steadily increase in the future. In addition, as the transfer of properties to long-term funds progresses, performance fees are also increasing rapidly.

By Business, Hotels & Logistics Contributed Greatly

Next, the breakdown of gross profit by business portfolio is as shown in Figure 10. In FY8/2024, hotels accounted for 41%, logistics 33%, healthcare 12%, and overseas 14%. Even in the final year of the newly announced second medium-term management plan (FY8/2025 to FY8/2029), the current outlook is that these four fields are expected to generate the majority of profits.

Of course, as was the case with the COVID-19 pandemic, if there is a major change in the environment, the company may respond quickly to it and the results may differ from the plan, but such speed can also be said to be one of the company's strengths. Each of the four fields is expected to expand toward FY8/2029 and as can be seen from Figure 10, there is no forecast for a major change in the composition ratio.

Figure 9. Trends in Gross Profit by Revenue Portfolio

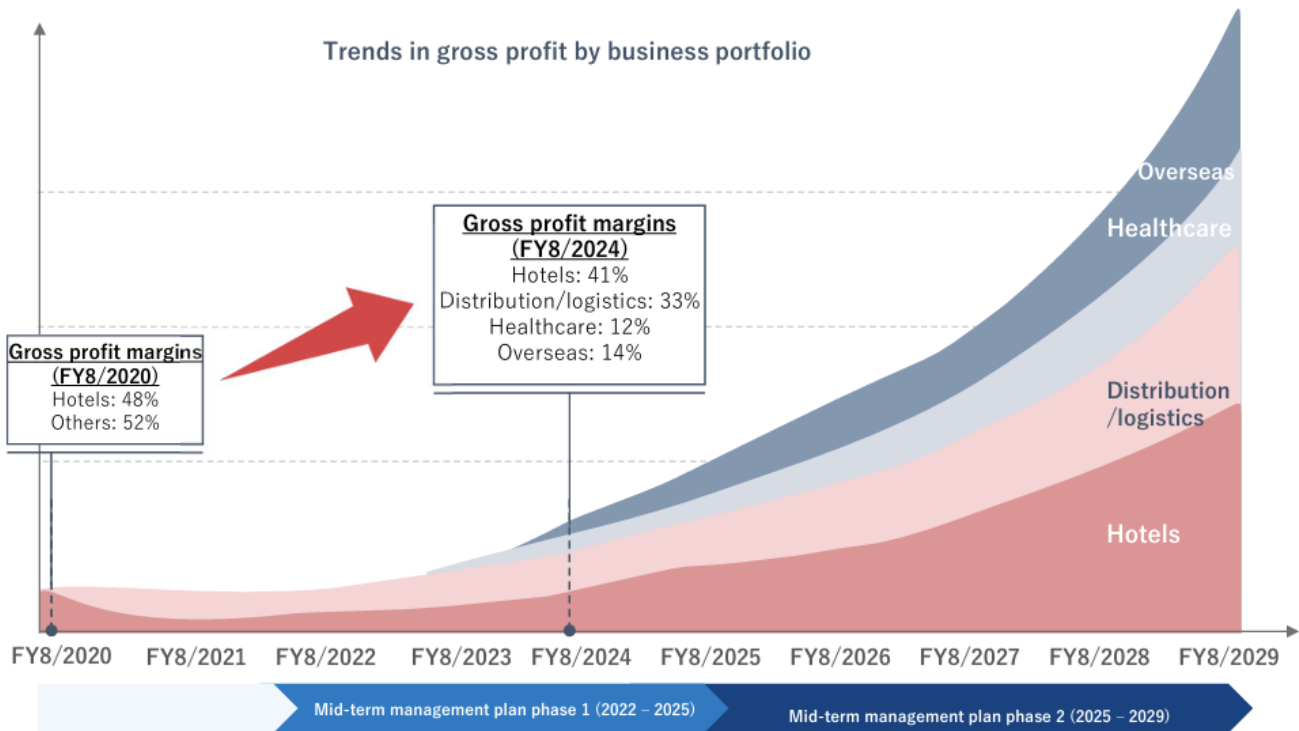


Note: Gross profit figures are calculated based on the composition ratio disclosed by the company.

Source: Company Data. Compiled by Strategy Advisors

Figure 10. Trends in Gross Profit by Business Portfolio

Business portfolio trends are diversified to accommodate the market environment and market issues
The gross margin for each business is in the 25 – 35% range.



Source: Company Data. Compiled by Strategy Advisors

4. Financial Trends/Cash Flow

The Demand for Funds is Very Strong

The company's business model involves purchasing land with its own funds and then selling it to a development fund in about six months, which places a smaller financial burden on the company than typical developers who often construct in-house. Nevertheless, the company is in a period of rapid growth and is rapidly increasing its land purchases, so it has strong needs for funds. Figure 11 summarizes cash in and cash out. As purchases of land and buildings have increased sharply, the company's real estate holdings have increased significantly as inventory. Cash flows from profits have also expanded rapidly, but there is a much greater need for funds.

Equity Financing Announced on October 17th. 12.6% Potential Shares

Kasumigaseki Capital has raised funds through debt and equity financing. On October 17, 2024, the company announced the issuance of Euro-Yen convertible bonds with stock acquisition rights due in 2029. The conversion price of the stock acquisition rights is ¥17,710, 10% higher than the closing price of ¥16,100 on the day of the announcement.

The total amount of the bonds issued is ¥22 billion, which will result in 12.6% potential shares for the 9.84 million shares issued (excluding treasury stock) as of the end of FY8/2024.

The Purpose of the Funds is Clearly Indicated & it is Understood that the Funds are Being Raised for Growth

The plan is to use the ¥22 billion by the end of FY8/2025 to acquire and develop land, etc., with approximately ¥17.6 billion (approximately ¥5.5 billion for logistics, approximately ¥9.9 billion for hotels, and approximately ¥2.2 billion for healthcare), and approximately ¥4.4 billion for acquiring residential properties for the overseas business. The scale of each business is expanding rapidly and the demand for funds is expected to be strong; but in particular, the number of cases and the size of each case are expanding rapidly due to the development of the high-end brand "seven x seven" and the increase in cases of purchasing land and buildings of existing hotels and the demand for funds is expected to be particularly strong.

The closing price on October 18, the day after the announcement of the convertible bond issue, fell 7.2% from the previous day to ¥14,940 but this was smaller than the dilution ratio. As mentioned above, it is clear that the bonds will be used for growth and the market is expecting that they will lead to earnings growth based on past performance.

Growth is Strong & Capital Needs Remain Strong

As of the end of FY8/2024, the company's equity capital was ¥26.9 billion and interest-bearing debt was ¥41.9 billion, so if the ¥22 billion convertible bonds are converted, the balance sheet will have some room to maneuver. In addition, the amount of profits is expanding rapidly, which will also generate funds for the purchase of land and buildings. However, as the company expects the scale of its business to continue to expand significantly, there will likely be a possibility of equity financing in the future. Even in that case, it is believed that the company will be able to achieve an increase in profits that far exceeds the dilution and increase EPS.

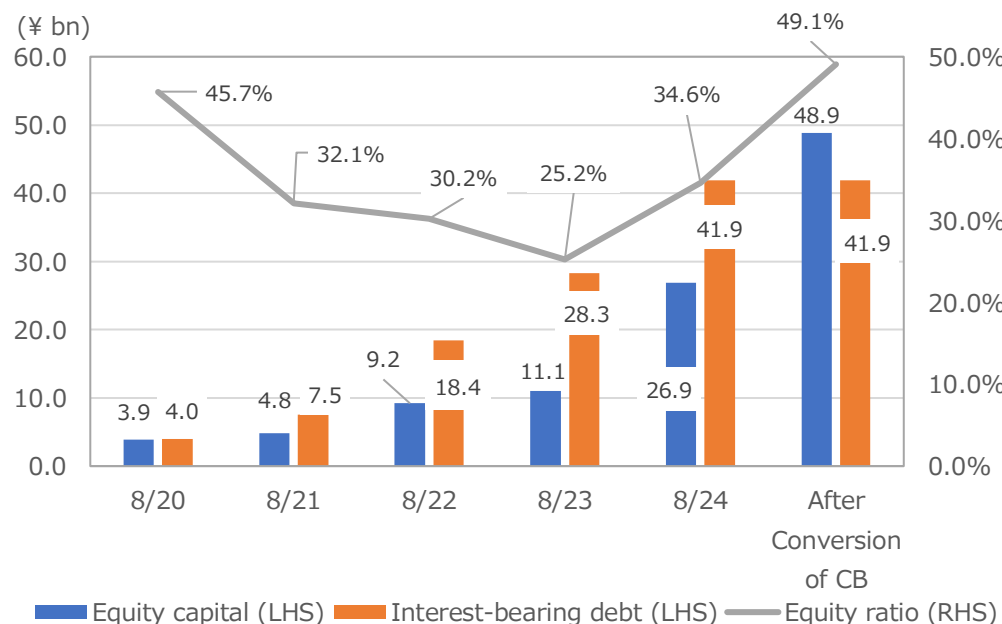
Figure 11. Changes in Cash Flow

(¥ mn)

FY	8/20	8/21	8/22	8/23	8/24
Cash Outflow					
Inventory	156	-1,221	-13,563	-10,706	-19,260
Acquisition of Tangible Fixed Assets	-109	-1,664	-203	-465	-1,899
Acquisition of Investment Securities	-76	-61	-264	-702	-2,419
Acquisition of Treasury Stock	-199	0	-321	-178	0
Dividends	-55	-63	-132	-240	-489
Other	-1,213	-3,591	-914	-1,052	-9,702
Total	-1,496	-6,600	-15,397	-13,343	-33,769
Cash Inflow					
Net Income	134	793	1,018	2,050	5,020
Loans	632	3,127	10,943	9,728	13,841
Bonds	-20	247	-65	184	-165
Lease obligations	8	155	25	-36	-71
Issuance of stock	2,312	0	3,568	0	10,894
Other	-1,570	2,278	-92	1,417	4,250
Total	1,496	6,600	15,397	13,343	33,769

Source: Company Data. Compiled by Strategy Advisors

Figure 12. Interest-Bearing Debt and Financial Position



Note: This simulation assumes that after conversion of the convertible bonds, equity capital will increase by ¥22 billion based on the balance sheet as of the end of FY8/2024. Actual conversion will take time.

Source: Company Data. Compiled by Strategy Advisors

The Direct Impact of Rising Interest Rates is Limited

As of the end of FY8/2023, interest-bearing debt was ¥28.3 billion and interest-bearing debt for FY8/2024 was ¥41.9 billion, so if we take the full-year average to be ¥35.1 billion and calculate the annual interest payment rate based on the interest payment of ¥670 million in the first half of the year, it comes to 2.0%. If interest rates were to rise by 1.0% in the future, interest payments would increase by ¥400 million given the current level of interest-bearing debt, but the impact is deemed to be limited given the current profit levels.

There Will be an Impact on Utilization of External Capital, But the Risk is Small at This Point

However, if interest rates in Japan were to rise significantly, the capitalization rates (cap rates) of development funds and real estate funds would rise, which could have an impact on project fundraising and property sales. However, considering Japan's macroeconomic environment, the risk of a significant rise in interest rates is thought to be small and the company appears to be considering measures to prepare for a certain level of interest rate rise.

5. Hotel Business

1) Business Operation Concept and Features

Starting From a Rental Apartment in Machiya, Arakawa Ward, Tokyo

The origins of the hotel business date back to when current director Hidekazu Ogata converted a used rental apartment in Machiya, Arakawa Ward, into a lodging facility and started operating it. The facility was designed to accommodate 4-5 people per room, but there was strong demand, and the company decided to branch out into hotels for larger groups. The company is also on board with the concept of regional revitalization, and operates its hotels with the idea of providing guests with a tasteful travel experience by utilizing the local resources of regional cities and tourist destinations. The company's first brand was "FAV HOTEL " (now "fav"), which has the following four features:

The Hotel's Features are Spacious: 1) Suitable for Large Numbers of People, 2) For Long-Term Stays, 3) Low Average Customer Spending & 4) Efficiency through DX

1) Standard guest room area is over 35 square meters, accommodating 4 or more people, 2) equipped with kitchen, bath, toilet, and washing machine for long-term stays, 3) customer unit price is set lower than that of a business hotel and 4) service utilizing digital transformation and efficient operation by minimizing staff. Note that the above is "fav's" original concept and currently guest room area varies depending on the facility, as well, the facilities provided in the rooms are also changing depending on the room area, etc.

Focusing on the Fact that Rooms for Large Numbers of People are Not Keeping Up with Demand

In Japan, 55% of travelers travel in groups of three or more family or friends, yet only 36% of the rooms accommodate three or more people, creating a huge disparity. "fav" aims to fill this gap by accommodating four or more people. From the construction stage, the rooms have been designed with high ceilings and bunk beds to allow large groups to relax comfortably. The hotel also comes equipped with amenities for convenient stays of two nights or more.

Reduce the Average Customer Spend by Reducing Manpower

The reduction in average spending per guest has been achieved through thorough labor-saving measures implemented through digital transformation. At "fav," there are only a minimum number of staff at the front desk, and guests check in by themselves using a QR code sent to their smartphones in advance. Locally popular cafes and other establishments are often given free store space near the front counter, and in return, they are asked to assist guests when they need help checking in. Room cleaning and other services are provided upon request, for a fee. There is no need to check out, and guests can simply leave. As a result of these labor-saving measures, low-cost operations have been achieved. In terms of hospitality, it is believed that guests are increasingly seeking self-hospitality over the extensive personal service of hotels and these labor-saving measures have also had a positive effect on customer satisfaction.

The GOP-based Breakeven Utilization Rate for "fav" is About 20%

For a normal hotel, the break-even point based on GOP (gross operating profit before deducting rent, property tax, depreciation, interest, etc.) is an occupancy rate of 50-60%, but since "fav" is around 20%, all hotels have maintained a profit even during the COVID-19 pandemic. In addition, the NOI yield, which indicates net operating profit (before deducting depreciation, etc.) against acquisition cost, is high at 10.9% (as of May) according to the company, exceeding the market NOI cap rate of 3.5% to 5.0%. For example, the rental NOI yield for FY4/2024 period (6-month settlement) of Hoshino Resorts REIT Investment Corporation, a rival of the Hoshino Resorts Group, was 5.3%.

Figure 13. Key Indicators for "fav" (May 2024)

Average Room Occupancy (DOR)	3.3	People	
Average Length of Stay (LOS)	1.7	Days	(Tokyo 2.7)
Inbound Ratio	45	%	(Tokyo 71%)
Average Room Rate (ADR)	23,025	¥	
Unit Price Per Guest	6,955	¥	
Occupancy Rate (OCC)	65	%	(Target 70%)
RevPAR	14,960	¥	
GOP Ratio	60+	%	(Breakeven 20%)
NOI	10.9	%	(Market NOI Cap Rate 3.5-5.0%)

Source: Company Data

Stylish Design

"fav" is also thoroughly particular about design. It promotes stylish and "cool" hotels. In addition to having excellent designers in-house, in some cases the interior design is handled by the UK's Studio PDP. "fav Hiroshima Heiwa Odori" won the 2023 GOOD DESIGN AWARD and several of its hotels have received high praise for their design.

Three Brands: "fav", "FAV LUX" & "seven x seven"

In addition to "fav," the company has added two other brands, "FAV LUX" and "seven x seven." "FAV LUX" has the same basic concept as "fav," but is a high-end hotel with more comprehensive facilities and amenities. "FAV LUX Nagasaki," which opened in February in 2024, is the first project. "seven x seven" is a high-end line that will be deployed in resort cities such as Itoshima, Fukuoka Prefecture, where the first hotel is located and Ishigakijima, Okinawa Prefecture.

Operated by Subsidiary fav Hospitality Group

The concept and operating policy of Kasumigaseki Capital's hotels are formulated and operated by its subsidiary, fav hospitality group, but the company also receives cooperation from a variety of partners, including REQREA (in which the company has a capital participation), IMD ALLIANCE, and OX Consulting. Each hotel incorporates the characteristics and individuality of its local area.

Figure 14. Characteristics of Each Brand

	seven x seven	FAV LUX	fav	Other Budget Hotels	Other Full-Service Hotels
Standard Room Size (sqm)	50-70	40-50	30-40	10-25	30-80
Room Unit Price (¥'000)	50-120	23-50	15-25	10-20	80-200
Average Price Per Person (¥'000)	17-40	8-17	5-13	7-13	40-100
Average Room Occupancy (DOR)	3.0	3.0	3.0	1.5	2.0
Property Amenities	Many	Few	None	None	Many
Service Level	Self Hospitality	Self Hospitality	Self Hospitality	Limited	Full Service

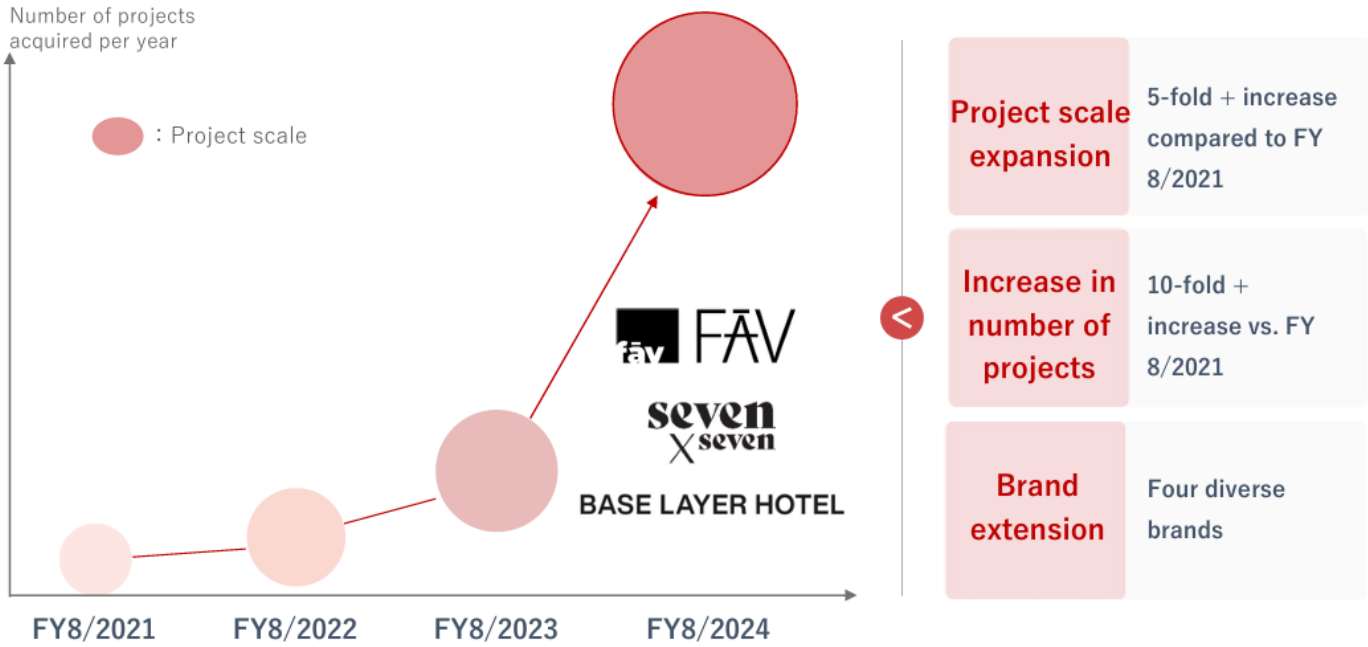
Source: Company Data

In Addition, "BASE LAYER HOTEL" Will be Added

In addition, the company has announced that it would launch a new brand, "BASE LAYER HOTEL" in September 2024. This is a new concept hotel that targets mainly business travelers and aims to allow them to enjoy the culture of the city where they are staying while also performing their business. These hotels will be renovated and rebranded and operated according to the above policy. In line with the development of "BASE LAYER HOTEL", the company has been acquiring companies that own existing hotels in good locations and purchasing land and buildings, resulting in a sudden increase in the number of properties and an increase in the amount per property. The Nagoya Hotel Rebranding Project, scheduled to open around summer 2025, will be the start of this brand.

Figure 15. Hotel Business Expansion

Expand both the scale and number of hotel business projects, and wide-ranging development of the hotel brands to meet customer needs



Source: Company Data

Figure 16. Interior of "fav Hiroshima Heiwa Odori"



Source: Company Data

2) Hotel Industry Business Environment

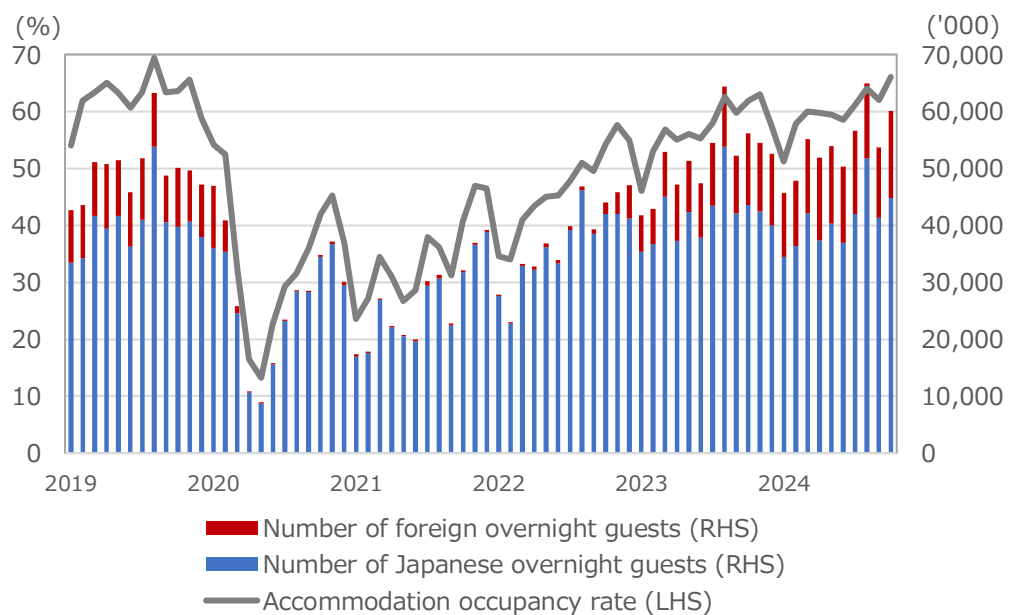
Number of Foreign Visitors Exceeds Pre-COVID Levels

The number of foreign visitors to Japan has grown significantly, increasing 31.6% YoY to 3.31 million in the October 2024 flash report. It is expected to reach 35 million in the 2024 calendar year, the highest figure ever. The government has set a goal of increasing this to 60 million by 2030 and it is highly likely that demand for inbound accommodation will continue to grow significantly in the future. While demand is expanding, accommodation facilities have not increased due to the COVID-19 pandemic and occupancy rates for accommodation facilities across the industry are approaching 2019 levels.

There is Ample Room for Kasumigaseki Capital to Expand Its Market Share

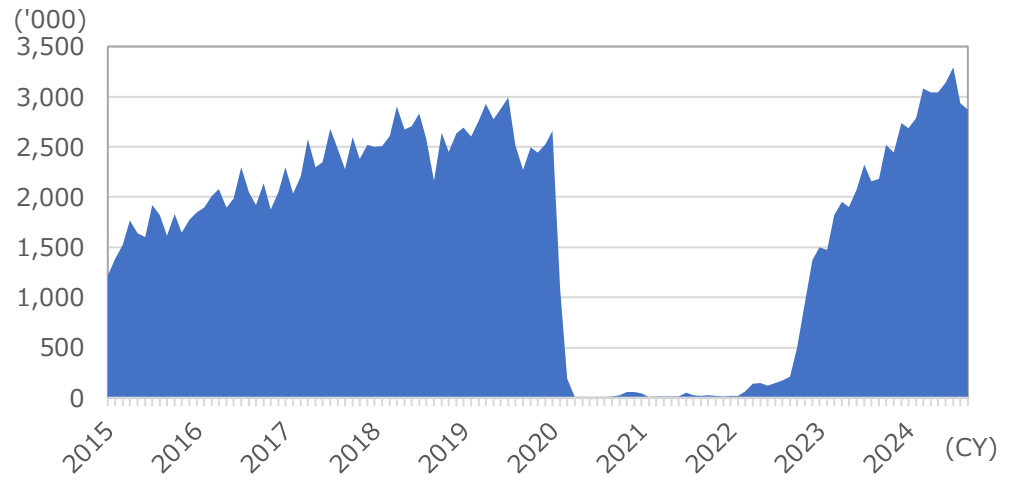
The total number of accommodation facilities in Japan is estimated at 55,000, with around 1.7 million guest rooms. Of this, around 10,000 are hotels, with around 1 million guest rooms. Kasumigaseki Capital currently has 15 hotels in operation, with 726 rooms, and even including those scheduled to open, its market share is less than 0.5%. For this reason, there is plenty of room for the company to continue to increase the number of attractive, cost-competitive hotels, as it has done in the past.

Figure 17. Total Number of Stay Nights & Occupancy Rates



Source: Japan Tourism Agency "Accommodation Travel Statistics Survey"

Figure 18. Changes in the Number of Foreign Visitors to Japan



Source: Japan National Tourism Organization

Figure 19. "seven x seven Ishigaki"



Source: Company Data

Two Core Funds Have Been Established and Asset Management Fees Will be Included in the Future

Of the hotels currently in operation, 10 have been transferred to FAV PRF1 LLC, a long-term private placement fund that began operations in February 2023. Kasumigaseki Capital has also invested in the fund and is entrusted with asset management services. Its total assets are ¥13.5 billion. Furthermore, FAV PRF2, which began operations in June in 2024, was established for four hotels and has total assets of ¥12.5 billion. Again, the same company has been entrusted with asset management services. It is expected that stable asset management income will come in from these funds in the future.

Figure 20. Hotel Business Pipeline

Project	Long-Term Fund	Total Floor Area (sqm)	No. of Rooms	Operation/ Scheduled Opening	
1	fav Takamatsu	FAV PRF 1	1,985	41	In operation
2	fav Hida Takayama	FAV PRF 1	1,702	38	In operation
3	fav Kumamoto	FAV PRF 1	2,957	67	In operation
4	fav Ise	FAV PRF 1	1,216	36	In operation
5	fav Hiroshima Stadium	FAV PRF 1	1,271	33	In operation
6	fav Hakodate	FAV PRF 1	1,380	30	In operation
7	fav Kagoshima Chuo	FAV PRF 1	2,226	51	In operation
8	fav Hiroshima Heiwa Odori	FAV PRF 1	2,500	51	In operation
9	fav Tokyo Nishinippori	FAV PRF 1	772	24	In operation
10	fav Tokyo Ryogoku	FAV PRF 1	730	19	In operation
11	FAV LUX Hida Takayama	FAV PRF 2	2,908	53	In operation
12	FAV LUX Nagasaki	FAV PRF 2	2,552	52	In operation
13	seven x seven Itoshima	FAV PRF 2	3,785	47	In operation
14	FUV LUX Kagoshima Tenmonkan	FAV PRF 2	3,463	63	In operation
15	seven x seven Ishigaki	Before incorporation	16,974	121	In operation
	[Under Development]	[Brand]			
16	Sapporo Minami 6, Nishi 7 PJ	fav	4,285	84	Jun-25
17	Gotemba Todenchu Hotel PJ	FAV LUX	3,843	49	Aug-25
18	FAV LUX Shodoshima	FAV LUX	4,635	45	Aug-25
19	Awajishima Sumoto Hotel PJ	FAV LUX	5,073	59	Mar-27
20	Shodoshima Shobu Hotel PJ	Undecided	Planning	Planning	Planning
21	Yufuin Hotel PJ	seven x seven	7,691	39	Mar-27
22	Miyazaki City, Tachibana Higashi Hotel PJ	fav	2,495	41	Jun-26
23	Hakone Gora Hotel PJ	seven x seven	Planning	Planning	Planning
24	BASE LAYER HOTEL Nagoya	BASE LAYER HOTEL	4,106	186	May-25
25	Nagoya Marunouchi Hotel PJ	fav	Planning	Planning	Planning
26	Kanazawa Katamachi Hotel	FAV LUX	Planning	Planning	Planning
27	Atami Ginza-machi Hotel PJ	FAV LUX	Planning	Planning	Planning
28	Hiroshima Miyajimaguchi Hotel P	Undecided	4,400	34	Feb-26
29	Fukuoka Hotel rebrand PJ	Undecided	3,723	Planning	Autumn 2025
30	Asahikawa Hotel PJ	fav	Planning	Planning	Planning
31	Uji Yamada Hotel PJ	FAV LUX	Planning	Planning	Planning
32	Miyako Nishihama Beach Hotel PJ	seven x seven	Planning	Planning	Planning
33	Ginza Hotel PJ	seven x seven	Planning	Planning	Planning
34	Shibuya-Ku Hotel PJ	fav	Planning	Planning	Planning
35	Nagasaki Hotel rebrand PJ	Undecided	Planning	Planning	Planning
36	Fuji Kawaguchi-ko Hotel PJ	Undecided	Planning	Planning	Planning
37	Osaka Honmachi Hotel PJ	Undecided	Planning	Planning	Planning
38	Nagoya Nakaku Hotel Rebrand PJ	Undecided	7,461	Planning	Planning
39	Asakusa Kaminarimon Hotel PJ	Undecided	Planning	Planning	Planning

Note: Total floor area is rounded off to the nearest whole number. Schedule, total floor area and number of rooms are subject to change depending on the development status.

Source: Company Data. Compiled by Strategy Advisors

3) Comparison with Other Companies in the Industry

Comparison with Hoshino Resorts Group

Kasumigaseki Capital's hotel business is thought to have many similarities to the Hoshino Resorts Group, as it operates distinctive accommodation facilities with a clear concept of fusing hardware and software and operates with a small balance sheet by utilizing funds. Hoshino Resorts Holdings is a privately held company, so a comparison will be made based on materials from its listed affiliate, Hoshino Resorts REIT, Inc. (3287 REIT).

According to the Hoshino Resorts website, the group operates a total of 67 hotels, including the flagship "Hoshinoya," the hot spring inn "KAI," the resort hotel "RISONARE," and the downtown hotel "OMO". Of these, 24 properties are owned by Hoshino Resorts REIT. In addition to hotels operated by Hoshino Resorts, the investment corporation owns three types of hotels: hotels rented to Hoshino Resorts and outsourced to external companies such as Hyatt and hotels rented directly to management companies, for a total of 69 properties (as of the end of FY4/2024).

As shown in Figure 21, Hoshino Resorts Holdings had total assets of ¥111 billion as of the end of FY11/2023, while Hoshino Resorts REIT had total assets of ¥216.0 billion as of the end of FY10/2023. The REIT includes properties that are rented by other companies, but it can be seen that the company has adopted a business model that utilizes REITs to keep its balance sheet compact. In terms of performance, the decline in profits for the REIT was relatively small during the COVID-19 pandemic due to its high fixed rent, while Hoshino Resorts Holdings posted a large deficit in FY11/2020. However, thanks to measures aimed at microtourism during the COVID-19 pandemic, profits had already started recovering in FY11/2021.

Figure 21. Hoshino Resorts Group's Revenues and Financial Status

Hoshino Resorts Holdings

(¥ mn)

FY	11/2018	11/2019	11/2020	11/2021	11/2022	11/2023
Revenue	67,512	69,880	48,908	54,045	80,108	91,882
Ordinary Income	2,802	1,911	-5,017	887	2,938	1,498
Net Income	1,427	413	-4,197	-7	2,051	9,015
Total Assets	74,466	75,396	78,129	92,145	113,930	111,030
Net Worth	32,472	33,556	28,334	30,019	36,500	45,737
Interest-Bearing Liabilities	20,269	19,809	25,760	36,324	44,261	29,033

Hoshino Resorts REIT

(¥ mn)

FY	10/2018	10/2019	10/2020	10/2021	10/2022	10/2023
Revenue	11,342	12,010	12,179	9,431	11,320	12,701
Ordinary Income	5,464	5,793	5,806	2,834	3,730	4,327
Net Income	5,463	5,800	5,804	2,876	3,725	4,522
Total Assets	163,704	172,964	178,813	179,715	205,962	216,046
Net Worth	105,577	105,660	105,591	106,157	125,840	126,257
Interest-Bearing Liabilities	109,873	123,602	135,606	136,172	143,009	160,936

Note: Hoshino Resorts Holdings figures are unaudited reference values. Hoshino Resorts REIT Corporation's revenues and incomes are the sum of the April period (6 months) and the October period (6 months).

Source: Hoshino Resorts REIT: Securities Report

Kasumigaseki Capital's "fav" also managed to maintain a profit even during the COVID-19 pandemic and it appears to have subsequently recovered relatively quickly by capturing demand for microtourism.

While the Hoshino Resorts Group is deeply involved in the operation of the accommodation facilities themselves, Kasumigaseki Capital leads the branding and promotion, but enlists the cooperation of the aforementioned partners for the operation itself, so it can be said that there is a difference in their business models.

Although the business model and scale are different, I would also like to touch on the APA Group. Although it is unlisted, it publishes its financial results. Its sales for FY11/2023 were ¥191.1 billion and its operating profit was ¥56.7 billion. Due to the COVID-19 pandemic, its profits declined in FY11/2020 and FY11/2021, but have since recovered rapidly and are now exceeding pre-COVID levels. As of the end of FY11/2023, it has a network of 779 hotels and 117,000 rooms (including those under construction), including franchises and APA-affiliated hotels, which will be described later.

APA Hotel's Moves also Attract Attention

A franchise is when an independent hotel owner operates a hotel under the "APA Hotel" brand, paying the APA Group a start-up guidance fee and royalties. The APA Group also operates a dedicated online reservation site, "APA Direct," which allows hotel owners to participate under their existing hotel brand, rather than the "APA Hotel" brand. If you make a reservation with APA Direct and have already paid, you can check in and check out via the app with "one-second check-in" and "one-second check-out" system and the company aims to attract customers by offering various benefits. APA Group owns many of its properties, but it also rents and operates properties owned by REITs and other companies.

Acquire REIT

The company announced that it would acquire 100% of the shares of Ooedo Onsen Asset Management, the asset management company of the listed Ooedo Onsen REIT (at the time), in December 2023. The investment corporation has since changed its name to Nippon Hotel & Residential Investment Corporation (3472 REIT). APA Group has stated that it is considering using REITs as one of its new fundraising schemes in order to aim at this acquisition. In addition, the investment corporation intends to acquire and own hotels, and the APA Group will operate the hotels, thereby expanding its network.

Figure 22. APA Group's Earnings Trends

(¥ mn)

FY	11/2018	11/2019	11/2020	11/2021	11/2022	11/2023
Revenue	133,949	137,156	90,432	91,656	138,237	191,227
Operating Income	37,962	35,979	2,044	8,190	35,833	56,676
Ordinary Income	36,231	33,547	1,009	7,522	35,315	55,277
Net Profit	23,662	21,193	949	3,938	21,728	37,320

Source: Company Data

Kasumigaseki Capital has also launched "BASE LAYER HOTEL" and has indicated its intention to acquire and rebrand existing hotels, which is expected to compete in part with APA Group's franchise expansion. However, the market size for both the business hotel business and the revitalization of used hotels is very large, and given Kasumigaseki Capital's size, it is not at a phase in which competition with other companies will restrict its growth for the time being.

6. Logistics Business

1) Demand for Frozen Foods is Growing

Domestic Demand for Frozen Foods is Steadily Increasing

Demand for frozen foods in Japan is showing steady growth. While the population is on a downward trend, per capita consumption is growing at a faster rate. According to data from the Japan Frozen Food Association, per capita frozen food consumption increased from 21.7 kg in 2013 to 23.2 kg in 2023 (annual growth of 6.9%), and total consumption expanded from 2.76 million tons to 2.88 million tons during the same period (annual growth of 4.5%). Looking at the breakdown of domestic production and imports, domestic production has not increased since 1997, while imports have been increasing steadily.

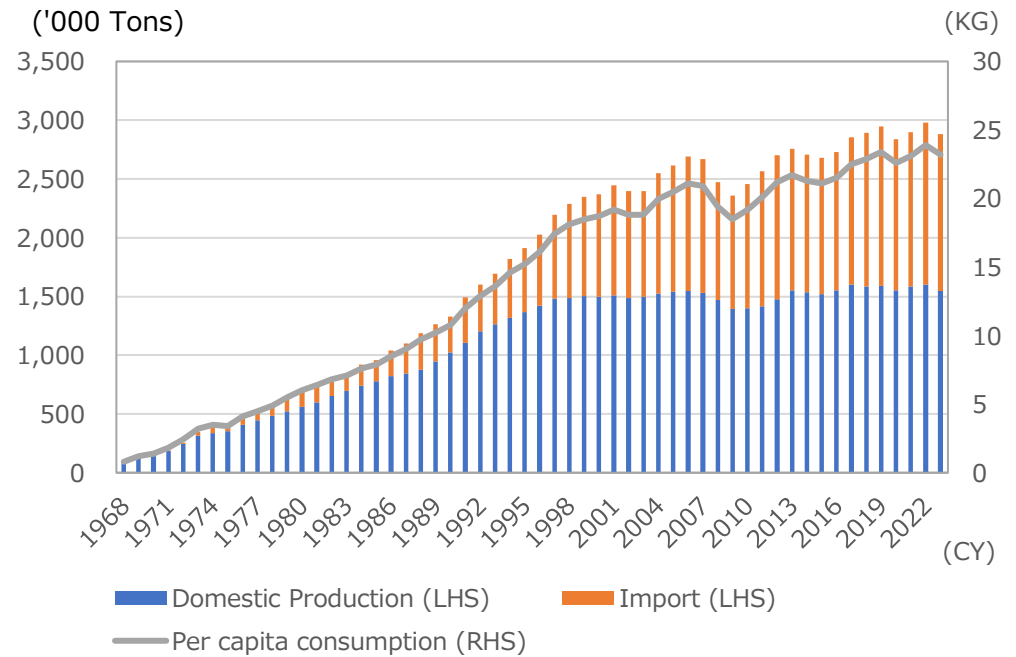
In Addition to Saving Cooking Time, There are Now Many Delicious Frozen Foods

In the association's survey, the top reasons cited by both men and women for the increased frequency of frozen food use were "because it's easy and convenient to cook" and "there are more products that I think are delicious". In addition to the continued strong need to streamline cooking time due to the increase in dual-income households, food manufacturers have made progress in product development and are now offering delicious ingredients. Also, while in the past frozen foods were often used as side dishes in bento lunches or as a meal, in recent years their usage has diversified, with whole plates now being offered as frozen foods.

Demand for Frozen Foods is Growing from the Perspective of SDG's

Furthermore, from the perspective of the SDG's, frozen foods are attracting attention as one way to solve the problem of food waste. Frozen foods have a long shelf life, which helps reduce food waste at home. One factor behind the increase in demand for frozen foods is the growing interest in food waste among general consumers. For these reasons, it is highly likely that domestic demand for frozen foods will continue to increase.

Figure 23. Trends in Domestic Consumption of Frozen Foods



Source: Strategy Advisors. Based on Data from the Japan Frozen Food Association

Figure 24. Motivations for Using Frozen Foods



Source: Strategy Advisors. Based on Data from the Japan Frozen Food Association

2) Utilization Rates of Refrigerated and Frozen Warehouses are High, but Supply and Demand are Tight

Shortage of Frozen/Refrigerated Warehouses

As the demand for frozen foods increases, the process from production to sales is called the cold chain. Among these, logistics is thought to hold the key. The cold storage warehouses that Kasumigaseki Capital deals with are insufficient in capacity, as the demand is growing while the increase in supply is not keeping up. Until now, frozen/refrigerated warehouses have often been owned by frozen food manufacturers or logistics companies for their own business, or built by real estate companies to meet the needs of these companies and rented as a whole building (BTS type). In other words, there were few multi-tenant frozen/refrigerated warehouses that could be used by multiple tenants. Kasumigaseki Capital has set its sights on this point.

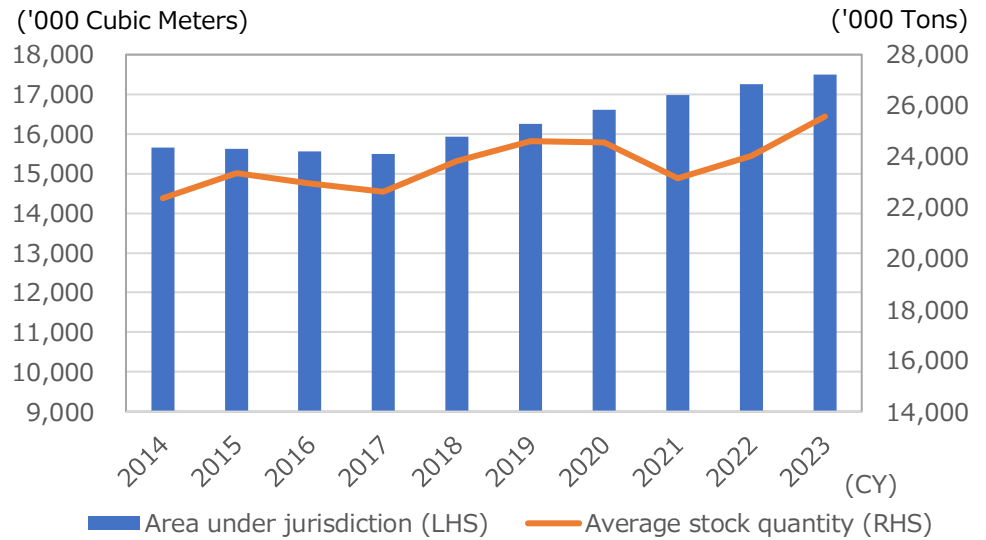
Demand Recovers After COVID-19 Slump

Figure 25 shows the trends in the capacity and inventory of frozen/refrigerated warehouses compiled by the Japan Refrigerated Warehouse Association. It shows the trends in the capacity and inventory (annual cumulative) of frozen/refrigerated warehouses. While the capacity, which indicates the supply of warehouses, has been steadily increasing, the inventory, which indicates the amount of storage, increased at a slightly faster pace until 2019. From 2020 to 2022, the COVID-19 pandemic caused a slump in demand for commercial frozen foods and led to a decrease in inventory, but it recovered in 2022 and 2023 as the COVID-19 pandemic subsides. At present, the operating situation is estimated to be quite tight.

Supply & Demand for Frozen/Refrigerated Warehouses is Tight

Figure 26 shows the trend in the occupancy rate of Japan's frozen/refrigerated warehouses, as compiled by the Japan Refrigerated Warehouse Association. Warehouse capacity is registered in cubic meter, but cargo is measured in tons, so this is a reference value converted to a weight basis by applying an approximate specific gravity for each product type, but it shows the trend in the supply and demand balance. As expected, the occupancy rate of warehouses declined in 2021 and 2022, when the effects of the COVID-19 pandemic were felt, but has since recovered to pre-COVID-19 levels. The levels are also over 100% in the six major cities, indicating a very tight situation.

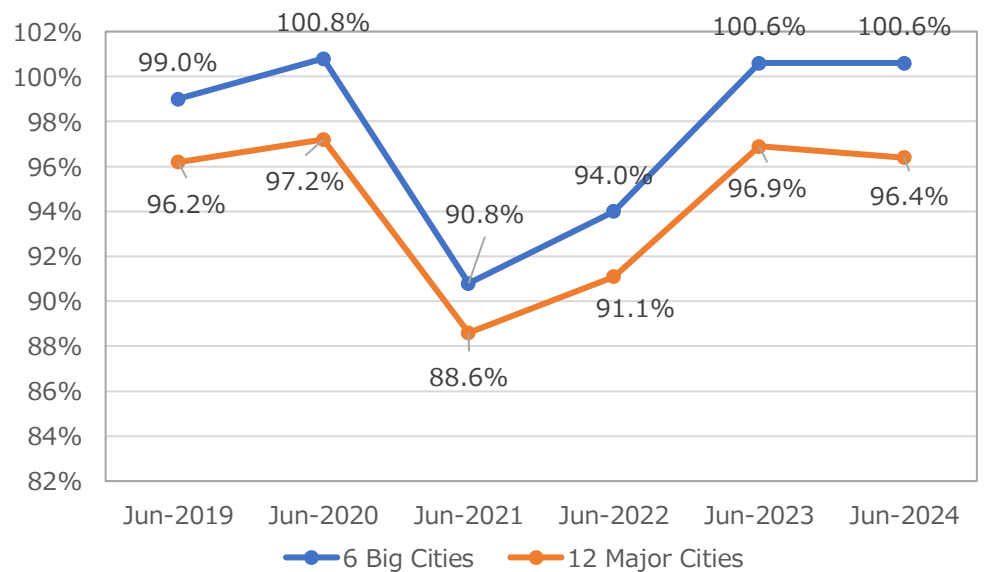
Figure 25. Frozen/Refrigerated Warehouse Capacity & Inventory



Note: Annual Cumulative Basis

Source: Strategy Advisors. Based on Data from the Japan Association of Refrigerated Warehouses

Figure 26. Usage Rate of Frozen/Refrigerated Warehouses



Note 1: Warehouse occupancy rate is based on certain assumptions and indicates the degree to which cargo is filled relative to the available space (according to the Japan Association of Refrigerated Warehouses).

Note 2: The six major cities are Tokyo, Yokohama, Nagoya, Osaka, Kobe and Fukuoka. The twelve major cities also include Sapporo, Sendai, Funabashi, Kawasaki, Hiroshima and Matsuyama.

Source: Strategy Advisors. Based on Data from the Japan Association of Refrigerated Warehouses

As mentioned above, there is a strong need for the construction of frozen /refrigerated warehouses due to the increase in demand for frozen foods and the high utilization rate of frozen /refrigerated warehouses, but there is also another reason why rebuilding of these warehouses is inevitable in the future. This is the mandatory shift from specified fluorocarbons and alternative fluorocarbons to natural refrigerants.

3) Switching from Alternative Fluorocarbons to Natural Refrigerants

Specific Fluorocarbons Have Already been Abolished

The use of fluorocarbons, which are used as refrigerants in cold storage warehouses, is restricted as an environmental measure. Among fluorocarbons, CFCs (chlorofluorocarbons) and HCFCs (hydrochlorofluorocarbons), which are believed to destroy the ozone layer, are called specified fluorocarbons and are regulated worldwide by the Montreal Protocol adopted in 1987. CFCs were already completely phased out at the end of 2009, and production of HCFCs is expected to have ceased in principle by 2020 in developed countries.

Alternative Fluorocarbons to be Reduced by 2029

In contrast to these specific fluorocarbons, HFC's (hydrofluorocarbons), which do not cause ozone layer destruction, have been called alternative fluorocarbons and their use has expanded since 2000. However, HFCs are gases with a very high greenhouse effect, several hundred to 10,000 times that of carbon dioxide. In 2016, the Kigali Amendment to the Montreal Protocol was passed to regulate HFCs, and Japan accepted it in 2018. As a result, the upper limits on the production and consumption of alternative fluorocarbons are being gradually reduced from 2019. The consumption volume in CO2 equivalent is scheduled to be reduced by 70% from the standard value of 71.52 million tons, which was the average value from 2011 to 2013, to 21.45 million tons in 2029. The use of HFC's as refrigerants in cold storage warehouses is also expected to be significantly reduced, at a similar pace. For this reason, the industry is urgently required to shift to natural refrigerants.

Natural Increase in Demand & Replacement Demand

According to Kasumigaseki Capital, 49% of the 39 million cubic meters of domestic supply of frozen/refrigerated warehouses in 2024 will still use specified fluorocarbons or alternative fluorocarbons. In 2030, demand is expected to increase by 6 million cubic meters to 45 million cubic meters and 19 million cubic meters of demand will be generated by replacing specified fluorocarbons or alternative fluorocarbons. In other words, a total of 25 million cubic meters of demand will be generated and new demand equivalent to 64% of the total supply in 2024 is expected to be generated by 2030.

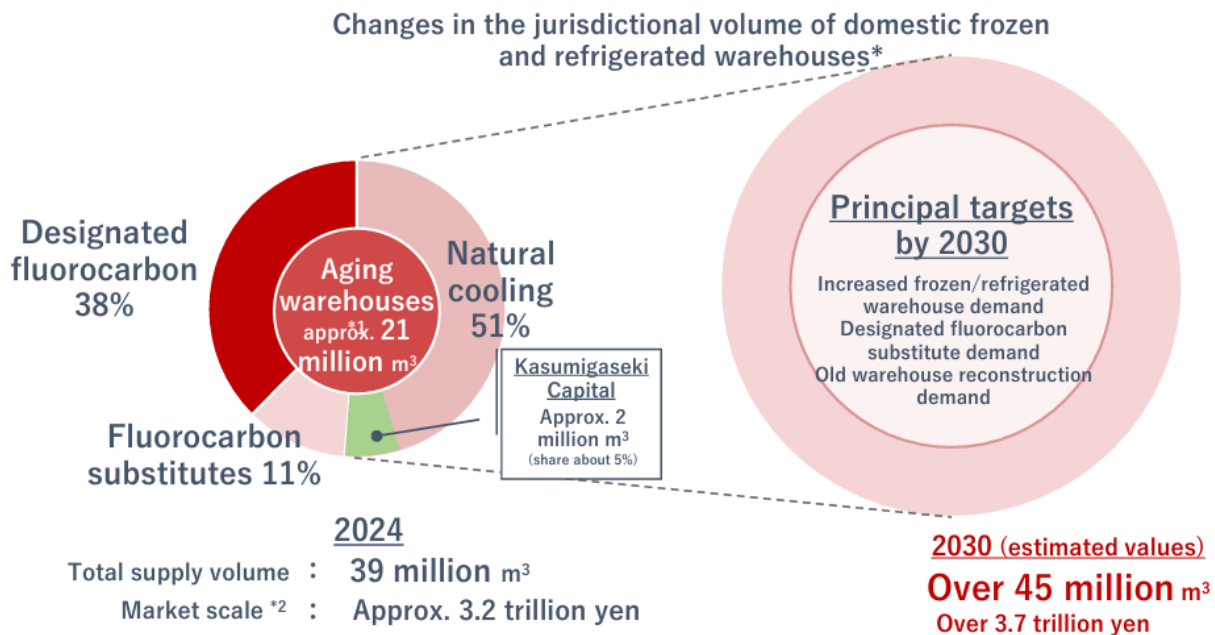
Due to the Problem of Deterioration, the Reconstruction of Frozen /Refrigerated Warehouses is Expected to Progress

In addition, there is also the issue of aging cold storage warehouses. According to Kasumigaseki Capital, warehouses that are over 20 years old total about 21 million cubic meters, accounting for 54% of the total supply of 39 million cubic meters. Many of the older cold storage warehouses use specified fluorocarbons or alternative fluorocarbons as refrigerants, but some also use natural refrigerants. This demand for rebuilding will also be added.

The total capacity of Kasumigaseki Capital's existing and planned properties is currently around 2 million cubic meters which is only about 5% of the national supply. Considering the future market expansion mentioned above, it can be said that the company still has a lot of room to grow in this space.

Figure 27. Capacity of Frozen/Refrigerated Warehouses

Going forward, warehouse demand seen trending strongly, driven by (1) higher demand for frozen/refrigerated goods, (2) designated fluorocarbon substitute demand, and (3) aging warehouse reconstruction demand



Source: Estimated by us based on the "Warehouse Statistics Quarterly" of the Japan Cold Storage Association and the Ministry of Land, Infrastructure, Transport and Tourism/Yano Keizai.
 *1 Old warehouse: Warehouse built more than 20 years ago
 *2 Market size: Estimated based on the assumption that the construction cost for a warehouse 5.5 meters high and 1 tsubo (1.5m²) in size is 1.5 million yen.

Source: Company Data

Figure 28. Logistics Business Pipeline

Project	Prefecture	Asset Type	Floor Area (sqm)	Expected Construction Start	Expected Completion	Tenant
LOGI FLAG COLD Ichikawa I	Chiba	Frozen/Refrigerated	8,609	-	Completed	SBS Zentsu Co.
LOGI FLAG COLD Funabashi I	Chiba	Frozen/Refrigerated	6,960	-	Completed	Sagawa Global Logistics Co.
LOGI FLAG COLD Yokohama Kohoku I	Kanagawa	Frozen/Refrigerated	10,979	-	Completed	Japan Logistic Systems Corp.
LOGI FLAG Fresh Kyoto I	Kyoto	Frozen/Refrigerated	12,012	-	Completed	MITOMO TUSYO Co.
LOGI FLAG COLD Atsugi I	Kanagawa	Frozen/Refrigerated	14,257	-	Completed	SBS Flec Co.
(Tentative Name) LOGI FLAG TECH Osaka Nanko Area I	Osaka	Frozen, Automated	36,415	Spring 2025	Autumn 2027	
LOGI FLAG DRY & COLD Fukuoka Koga I	Fukuoka	3 Temperature band	35,901	-	Completed	ASAHI SHOKUJIN CO., Runtec Corporation, Factem CO.
LOGI FLAG DRY & COLD Sendai Izumi I	Miyagi	3 Temperature band	36,758	-	Completed	KOYO (Subsidiary of Kaname Holdings Co.), SASAKI INC.
LOGI FLAG TECH Tokorozawa I	Saitama	Frozen, Automated	9,622	-	Completed	X NETWORK
LOGI FLAG COLD Osaka Ibaraki I	Osaka	Frozen/Refrigerated	29,357	Started	Feb 2025	Japan Logistic Systems Corp.
(Tentative name) LOGI FLAG COLD Narashino I	Chiba	Frozen/Refrigerated	8,850	Started	Early 2026	
LOGI FLAG TECH Hachinohe I	Aomori	Frozen, Automated	15,918	-	Completed	
(Tentative name) LOGI FLAG TECH Higashi Ogishima I	Kanagawa	Frozen, Automated	20,777	Nov 2024	Summer 2026	
(Tentative name) LOGI FLAG TECH Higashi Ogishima II	Kanagawa	Frozen, Automated	25,402	Spring/Summer 2025	Winter 2027	
(Tentative name) LOGI FLAG TECH Koshigaya I	Saitama	Frozen, Automated	20,711	Fall/Winter 2025	Summer 2027	
(Tentative name) LOGI FLAG TECH Kobe Suma I	Hyogo	Frozen, Automated	25,466	Winter 2025	Winter 2027	
(Tentative name) LOGI FLAG TECH Nagoya Minato I	Aichi	Frozen, Automated	21,620	Fall/Winter 2024	Spring 2026	
Fukuroi Project	Shizuoka	Frozen, Automated	83,000	Spring 2026	Winter 2028	

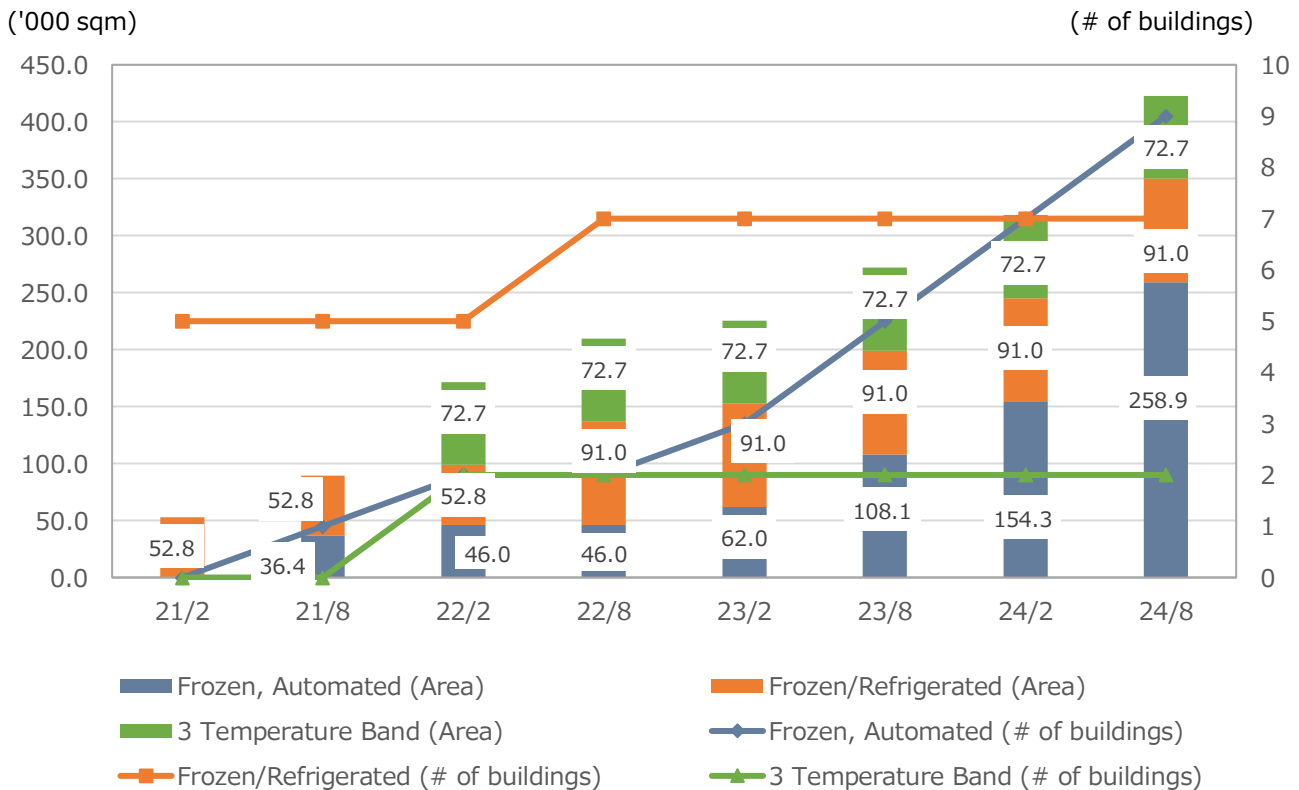
Note 1: For properties that have already been registered, the total floor area is the area recorded in the official records, rounded off to the nearest whole number. The total floor area and schedule may be subject to change depending on the development status.

Note 2: Since the automated warehouse has an open-ceiling structure and no floors, the total floor area is the area of the virtual floor.

Note 3: The three temperature zones are logistics facilities that can handle three temperature zones: frozen, chilled, and dry.

Source: Company Data. Compiled by Strategy Advisors

Figure 29. Total Floor Area of Frozen/Refrigerated Warehouses Developed by the Company (Half-Yearly Basis)



Source: Company Data

4) Differentiation Through Frozen Automated Warehouses

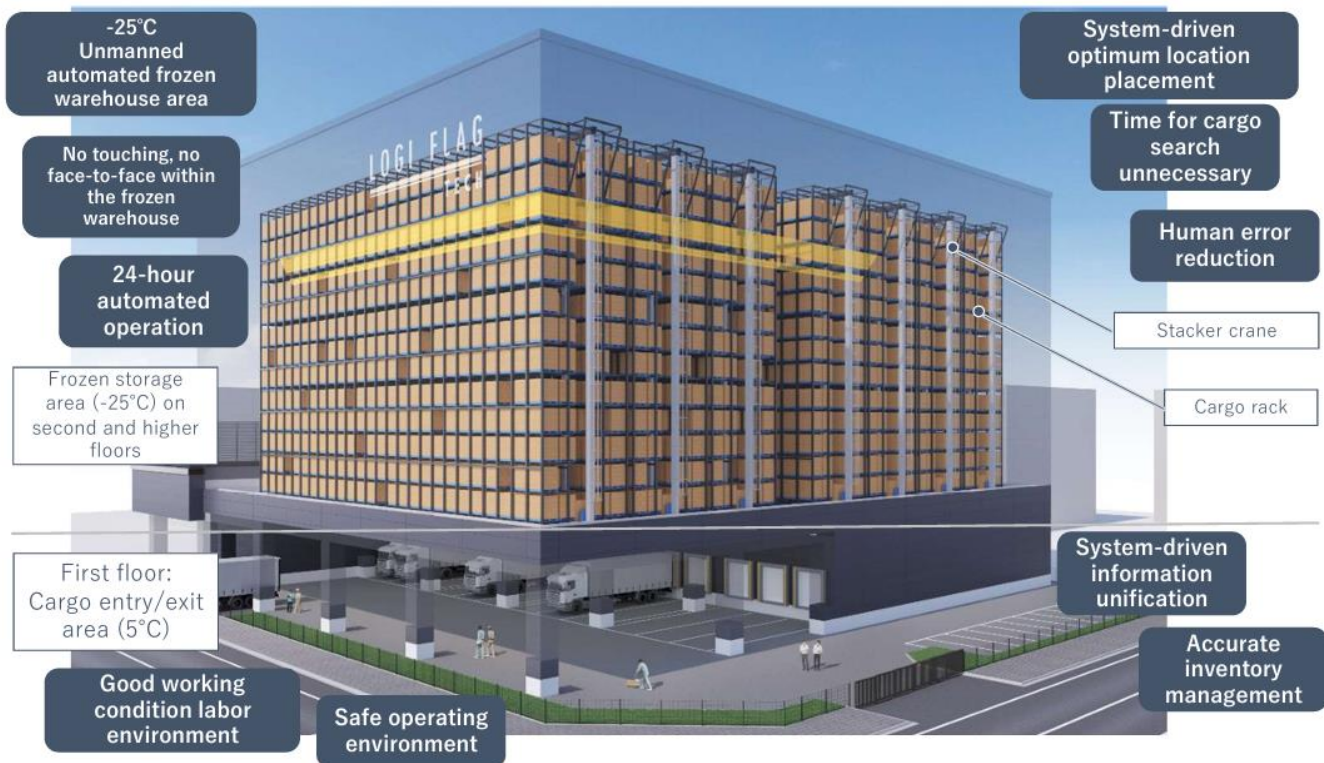
Constructing an Automated Warehouse System in a Joint Venture with SRE Holdings

The automated refrigerated warehouse is expected to be a major differentiating factor from other companies. In order to develop systems and software for automation, X NETWORK (95% invested by Kasumigaseki Capital) was established in November 2023 as a joint venture with SRE Holdings (an affiliate of Sony Group (TSE 6758)), which has extensive know-how in promoting digital transformation (Kasumigaseki Capital held 100% at the time of establishment of the company. 5% of the shares were transferred to SRE Holdings in January 2024). The company developed the frozen storage service "COLD X NETWORK" to be used in the operation of the automated refrigerated warehouse "LOGI FLAG TECH". This allows for flexible storage of frozen goods by the pallet unit, from short to long periods of time. Shippers can choose between a space reservation type, where they rent for a fixed period of time in the medium to long term and a pay-as-you-go type, where they rent on a spot basis.

The Benefits of Automation are Huge

In addition, the automated warehouse is expected to reduce human error by automating the frozen warehouse area, eliminate the need for time to search for items, prevent industrial accidents and improve the working environment. In particular, frozen warehouses have a harsh working environment, as workers work in temperatures of -25°C, making them susceptible to frostbite, and automation is therefore of great significance in terms of work style reform.

Figure 30. An Image of the Automated Refrigerated Warehouse Developed by the Company



*This is an illustration of the automated frozen warehouse to be developed, and is not an image of a specific

Source: Company Data

The First Automated Warehouse in Tokorozawa has been Completed

The first property is "LOGI FLAG TECH Tokorozawa I" was completed on September 30th this year and where the aforementioned "COLD X NETWORK" began its services. The tenant for this property is subsidiary X NETWORK, but it has been agreed that SBS Zentsu Co., a group company of SBS Holdings (2384 TSE Prime), will deposit about half of the space. It has also been decided that loading and unloading operations on the first floor will be outsourced to SBS Zentsu Co. It appears to be off to a very smooth start. Currently, there are two refrigerated automated warehouses planned in Kawasaki, Kanagawa Prefecture and one in Osaka Nanko, and it is expected that frozen automated warehouses will be the focus of the company's logistics business in the future.

5) The Competitive Situation

There are Still Few Multi-Tenant Frozen/Refrigerated Warehouses

To see the current state of the market, the frozen/refrigerated warehouse holdings of listed logistics J-REITs are shown in Figure 31. Investors such as GLP Investment Corporation (3281 TSE REIT) and Nippon Prologis REIT Investment Corporation (3283 TSE REIT) own large facilities. However, up until now most have been BTS (Build To Suit, where a facility is constructed according to the tenant's requests and rented out as a whole) and multi-tenant types where the facility is rented out to multiple tenants have been limited.

More Projects Coming in, But Not Enough Capacity

On the other hand, the number of multi-tenant projects is also increasing among recently completed projects and projects under construction or in the planning stages. Figure 32 shows the main construction plans for refrigerated warehouses announced by major developers. As can be seen, while the number of projects is certainly increasing, the completion dates are spread out, and even if the total floor area of the properties in Figure 32 is added up, it is only about 1.4 million square meters. Assuming a height of 5.5m, this works out to about 7.7 million cubic meters. This is small compared to the 25 million cubic meters increase in demand expected by 2030.

There are Companies that Have Expanded into Frozen Warehouses, But It is Rare for the Companies to Operate Them

Furthermore, Kasumigaseki Capital anticipated an increase in competition from the start and has been a pioneer in the industry in developing frozen automated warehouses. There are only a limited number of major real estate developers that have business models that involve operating the facility themselves, so Kasumigaseki Capital is presumed to have a significant advantage, particularly in terms of know-how in developing automated systems. The company has a business model that allows it to advance downstream when necessary to increase added value, which is ingrained in its corporate culture and will be a major differentiating factor for the company.

Figure 31. Frozen/Refrigerated Warehouses Owned by Logistics J-REITs

REIT	Code	Project	Prefecture	Acquisition Period	Construction Period	Type	Total Area/ Rentable Area (sqm)	Acquisition Price (¥ mn)
Daiwa House REIT	8984	D Project Kadoma I	Osaka	Oct-23	Feb-19	BTS	12,194	3,120
Daiwa House REIT	8984	DPL Shin-Narashino	Chiba	Apr-21	Nov-18	Multi	12,686	5,930
GLP J-REIT	3281	GLP Kazo II	Saitama	Apr-24	Jan-21	BTS	32,436	7,700
GLP J-REIT	3281	GLP Okayama Soja III	Okayama	Jun-23	Feb-22	Multi	31,425	6,980
GLP J-REIT	3281	GLP Zama (70%)	Kanagawa	Jul-21	Jun-15	Multi	114,148	29,653
GLP J-REIT	3281	GLP Zama (30%)	Kanagawa	Nov-22				13,460
SOSiLA Logistics REIT	2979	LiCS Tokorozawa	Saitama	Aug-23	Jan-07	BTS	7,815	1,325
KDX Realty Investment	8972	Prima Meat Packers' Kinki Center	Osaka	Apr-22	Oct-93	BTS	6,971	1,107
Nippon Prologis REIT	3283	Prologis Park Ebina 2	Kanagawa	Dec-21	Jul-21	BTS	34,485	15,200
LaSalle LOGIPORT REIT	3466	Logiport Kita Kashiwa (Expansion)	Chiba	Apr-24	Apr-24	Multi	2,284	714

Note: This includes properties that are partially equipped with refrigeration/freezing facilities. BTS stands for Build To Suit
Source: Created by Strategy Advisors. Based on Materials from Each Company

Figure 32. Major Construction Plans for Frozen/Refrigerated Warehouses

Company	Stock Code	Project	Location	Completion	Total Area (sqm)	Type
GLP Japan	-	GLP Rokko V	Higashinada, Kobe	Mar-24	10,151	BTS
GLP Japan	-	GLP Kobe Sumiyoshihama	Higashinada, Kobe	Feb-25	45,000	Multi
Mitsubishi Estate	8802	Logicross Osaka Suminoe	Suminoe, Osaka	Mar-25	43,500	Multi
Mitsubishi Estate	8802	(Tentative name) Osaka Taisho-Ku Hirao Refrigerated Logistic Facility Plan	Taisho, Osaka	Spring 26	21,200	For rent (No detail)
Tokyu Fudosan HD	3289	Nishiyodogawa, Osaka	Nishiyodogawa, Osaka	Apr-25	18,594	For rent (No detail)
JR West Real Estate & Development	-	(Tentative name) Sachiura NK Building, Yokohama	Kanazawa, Yokohama	Winter 26	15,919	For rent (No detail)
Mitsui Fudosan	8801	(Tentative name) MFLP Sugito	Kitakatsushika, Saitama	Dec-26	11,877	Multi
Mitsui Fudosan	8801	MFLP Minamikaijin, Funabashi	Minamikaijin, Funabashi	2H 26	20,800	For rent (No detail)
Daiwa House Industry	1925	DPL Maishima, Osaka	Konohana, Osaka	Jul-24	115,989	Multi
Daiwa House Industry	1925	DPL Osaka Nanko I	Suminoe, Osaka	Jul-26	85,799	Multi

Source: Created by Strategy Advisors. Based on Materials Obtained from Each Company

7. Healthcare Business

Developing Mainly Hospice Housing

Kasumigaseki Capital established a new Healthcare Business Promotion Department in December 2021 and entered the healthcare business. It is particularly focused on hospice housing. Currently, two facilities are open in Sapporo and one in Chofu, with one facility opening in Itabashi Ward in November. Eleven other projects are underway.

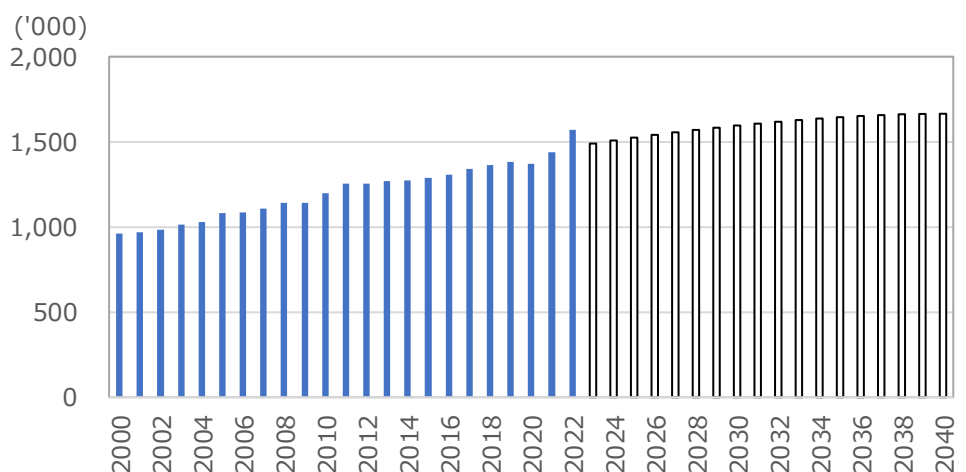
Strong Social Need, But Insufficient Supply

The reason why the company focused on hospice housing is that despite the strong social need, there is a shortage of supply, and it is expected that demand will continue to grow. As the population ages, the number of deaths in Japan is increasing every year and according to a forecast by the National Institute of Population and Social Security Research, it is expected to reach 1.69 million people per year by 2040. The proportion of cancer deaths as a cause of death is on the rise and the number of people who need palliative care for pain and other conditions is increasing. The number of palliative care wards is also increasing, but there is a shortage of facilities and hospital beds, and patients are asked to leave the hospital once their condition has stabilized, so they are not suitable for long-term stays. On the other hand, regular paid nursing homes do not have a well-established nursing or medical system, so they are unable to respond to changes in the health of residents.

Hospice Homes are Unique in that They Receive Income from Medical Insurance

Hospice homes are often located next to nursing or care facilities and home care and nursing services are often covered by medical insurance. Therefore, the revenue source structure of hospice homes is characterized by the fact that they can receive income from medical insurance in addition to the room usage fees and nursing care insurance that regular paid nursing homes receive.

Figure 33. Trends of the Number of Deaths in Japan



Source: The Ministry of Health, Labor and Welfare's "Vital Statistics Overview" for the period up to 2022. Forecasts from 2023 onwards are from the National Institute of Population and Social Security Research's "Japan's Future Population Estimates (2023 Estimate)." Medium mortality estimate.

Entering the Healthcare Business in May 2022

In May 2022, the company established KC-Welfare as a company to operate hospice housing and other facilities. It was then entrusted to a management company based in Sapporo. Kizuna operates Palm Sumikawa Hospice, Kasumigaseki Capital's first project and Palm Sapporo Chuo Hospice. In addition, the company recently launched the brand "CLASWELL," which is planned and operated by its subsidiary KC-Welfare. The first facility was "CLASWELL Kotake-Mukaihara," which opened in November 2024. In this way, the hospice housing business is deeply involved in downstream operations and can be said to be more vertically integrated than hotels or logistics.

Developing Comfortable Facilities in Good Locations

Kasumigaseki Capital's hospice housing is characterized by being located in highly convenient areas and having a comfortable design. Specifically, as with other asset types, they are involved from land acquisition and development to provide highly functional facilities. Located near train stations, it is easy for residents' families to visit and the know-how they have cultivated in hotels will ensure that the space is comfortable for residents and their families. According to the company, they want to create a facility that their parents would want to live in and that they themselves would want to live in in the future.

Figure 34. "CLASWELL Kotake-Mukaihara"

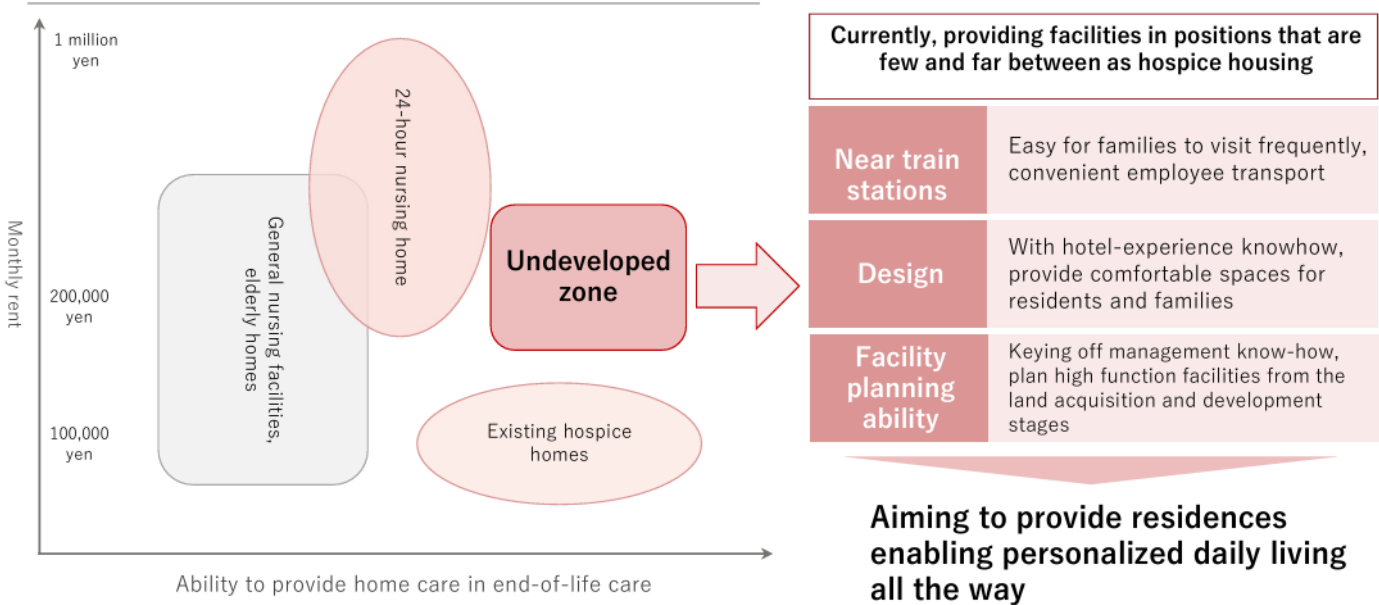


Source: Company Data

Figure 35. Hospice Housing Project Concept

Hospice home demand is increasing, but "facilities for living with one's parents" and "facilities one wants to live in" are limited

Example: Positioning of senior citizen facilities and residences in Tokyo's 23 wards



Source: Company Data

Figure 36. Hospice Housing Pipeline

Location	Homes	Status	Floor Area (sqm)	No. of rooms	Opening	Operator
Minami Ward, Sapporo City	PALME Sumikawa	Completed	1,539	37	Jul-22	Kizuna
Chofu City, Tokyo	CLASWELL Senkawa	Completed	3,178	70	Jul-23	KC-Welfare
Chuo Ward, Sapporo City	PALME Sapporo Chuo	Completed	3,001	60	Apr-24	Kizuna
Itabashi Ward, Tokyo	CLASWELL Kotake-Mukaihara	Completed	2,336	59	Nov-24	KC-Welfare
Shinjuku Ward, Tokyo	CLASWELL Shinanomachi	Developing	1,770	48	Feb-25	
Nerima Ward, Tokyo①	CLASWELL Shimoshakujii	Developing	2,093	50	Mar-25	
Toyonaka City, Osaka	Undecided	Acquired	2,422	56	Winter/Spring 26	
Suita City, Osaka	Undecided	Developing	2,128	56	Early 26	
Fuchu City, Tokyo	Undecided	Developing	2,284	47	Early 26	
Chuo Ward, Saitama City	Undecided	Developing	2,477	60	Winter/Spring 26	
Omiya Ward, Saitama City	Undecided	Developing	2,594	58	Early 26	
Fukuoka City, Fukuoka	Undecided	Developing	2,180	52	Spring 26	
Nerima Ward, Tokyo②	Undecided	Developing	2,363	57	Summer 26	
Suginami Ward, Tokyo	Undecided	Acquired	2,149	51	Summer 26	
Nishinomiya City, Hyogo	Undecided	Developing	2,125	45	Winter 26	

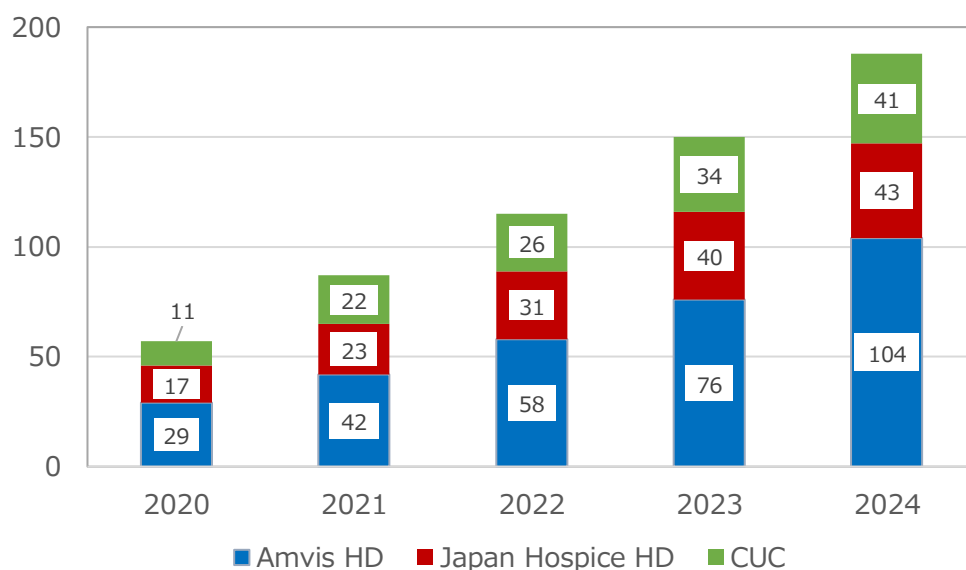
Note: The number of rooms and schedule may change depending on development status.

Source: Company Data. Compiled by Strategy Advisors

Hospice Housing Companies Expand Their Business

Due to the shortage of hospice homes, several companies are now opening and operating them in earnest and the scale of their businesses is expanding rapidly. The total number of hospice homes operated by Amvis Holdings (7071 TSE Prime), Japan Hospice Holdings (7061 TSE Growth), and CUC (9158 TSE Growth) has rapidly increased from 57 facilities in 2020 to 188 facilities in 2024. All of these companies plan to continue to increase the number significantly. Although Kasumigaseki Capital's hospice homes are rising rapidly, there are still only 15, which is only 8% of the total number of the above three companies. Considering that the overall market is expanding, there is a lot of room for growth in the future.

Figure 37. Number of Hospice Homes Provided by the 3 Major Hospice Providers



Note: Amvis Holdings' fiscal year ends in September, Japan Hospice's in December, and CUC's in March. Japan Hospice's figures for 2024 are as of the end of Q3 of FY12/2024.

Source: Company Data. Compiled by Strategy Advisors

The largest company, Amvis Holdings, owns many of the facilities it operates and has a different business model from Kasumigaseki Capital, but Amvis Holdings has been rapidly increasing its sales in a short period of time. In terms of profits, FY9/2025 is expected to decline, but the number of facilities is planned to increase significantly from 104 at the end of FY9/2024 to 132 at the end of FY9/2025, indicating that this is a market with high growth potential.

Figure 38. Amvis Holdings: Earnings

FY	9/2020	9/2021	9/2022	9/2023	9/2024	9/2025 CoE
Sales (¥mn)	9,174	15,334	23,072	31,985	42,475	53,647
Operating Income (¥mn)	1,876	3,784	6,132	8,630	10,612	8,627
Operating Margin	20.4%	24.7%	26.6%	27.0%	25.0%	16.1%
No. of Facilities	29	42	58	76	104	132
Bed Capacity	1,270	1,977	2,802	3,795	5,248	6,706
Bed Capacity Per Facility	43.8	47.1	48.3	49.9	50.5	50.8

Source: Company Data

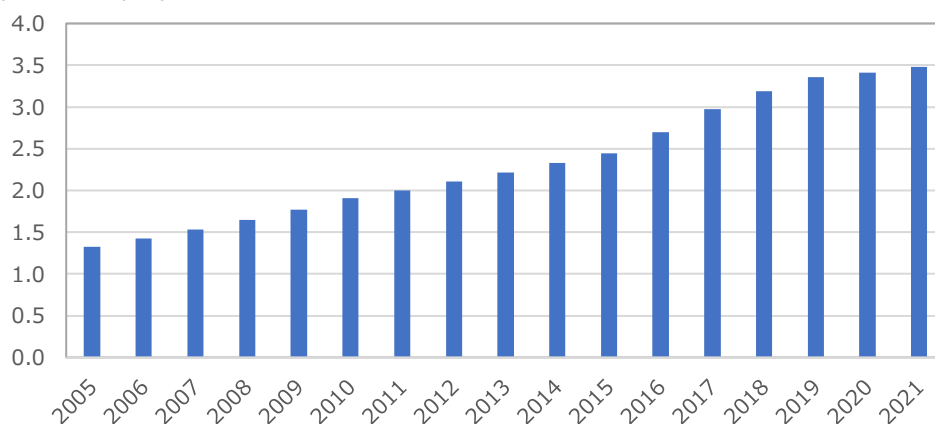
8. Overseas Business

Focus on Dubai's Residential Market

The company also operates overseas, with subsidiaries in Indonesia and Thailand. It is currently focusing on the residential market in Dubai. Dubai is a thriving financial and commercial city that is also focusing on tourism. The population is increasing and economic growth continues, but real estate prices remain relatively low. The company is currently engaged in buying and selling homes in the local real estate market, with an eye on forming a fund in the future.

Figure 39. Dubai's Population Change

(Million People)



Source: Dubai Statistics Center Data. Compiled by Strategy Advisors

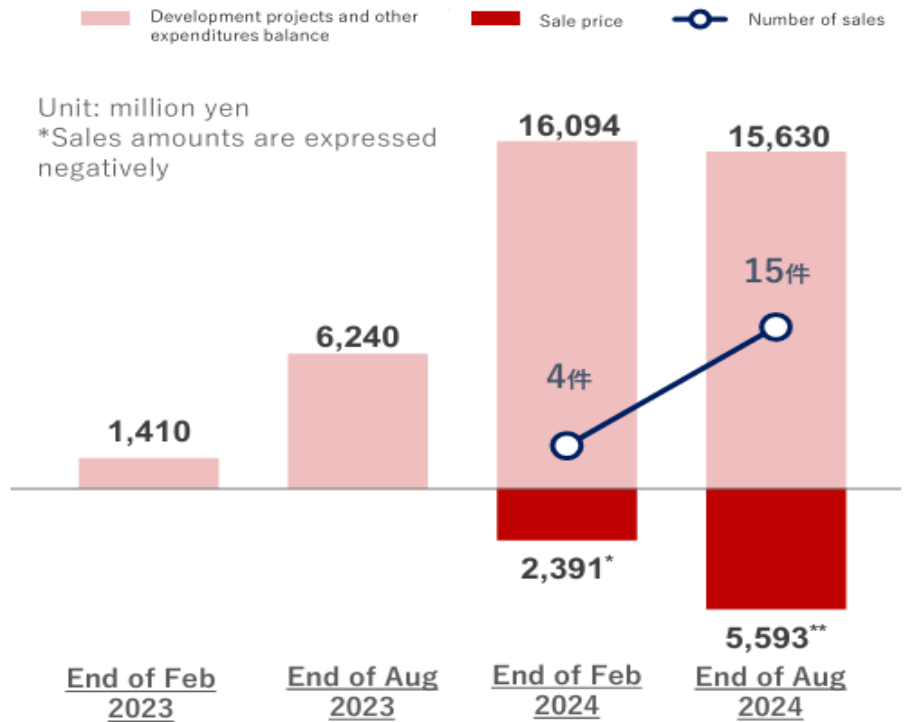
In the overseas business, the company had inventory (expenses for development projects, etc.) of ¥15.6 billion at the end of FY8/2024, but the proceeds from sales were ¥2.39 billion for four cases in the first half of FY8/2024 and ¥5.59 billion for 15 cases in the second half of the same period. As sales results continue to grow, procurement is increasing at a faster pace.

The company has mainly dealt with newly built properties up until now, but as the buying and selling of second-hand properties is becoming more common in Dubai, it would like to take on the renovation of such properties in the future.

Figure 40. Overseas Business Inventory

(Expenses for Development Projects, etc.) & Sales

Trends in development business funding and sales amounts and numbers of properties



* Sep 2023 – Feb 2024 sales amount

** Mar 2024 – Aug 2024 sales amount

Source: Company Data

Figure 41. Recently Sold Property: "Address Hillcrest "



Source: Company Data

9. Source of Competitiveness and Corporate DNA

1) Approach from Business Strategy Theory

Below, we look at Kasumigaseki Capital from a business strategy perspective.

" Differentiation Strategy "

The basic competitive strategies advocated by Michael E. Porter consist of three strategies: 1) cost leadership strategy, 2) differentiation strategy and 3) focus strategy. Of these, the most important strategy adopted by Kasumigaseki Capital is 2) differentiation strategy. The company calls itself a social problem-solving company and its basic philosophy is to provide facilities and services that are needed but in short supply.

Despite the demand, there are few hotels in Japan that can accommodate large numbers of people for long-term stays, so the company has focused on this and developed its business. The company is also particular about design, and has placed emphasis on providing stylish hotels designed by excellent designers both in-house and outside the company. As for frozen/refrigerated warehouses, while there are few companies that operate rental warehouses due to the difficulty of finding tenants, the company has focused on the potential and has been a leader in this field. In particular, the fact that the company has built its own systems for automated frozen/refrigerated warehouses and is developing its business there is a major differentiating factor from other companies. As for hospice housing, the company stands out by being well located and providing comfortable facilities for both residents and their families through its design and operation.

"Cost Leadership Strategy"

In addition, especially in the hotel business, it is also compatible with the "cost leadership strategy". By thoroughly reducing manpower through DX and reducing costs, the break-even operating rate was lowered and it was possible to maintain a profit even during the COVID-19 pandemic. This is what enabled the rapid expansion of the business afterwards. In the frozen/refrigerated warehouse business, too, the use of the operation system "COLD X NETWORK " will lead to increased efficiency and reduced costs for automated warehouses.

Focus on the Resource-Based View

However, in the case of hotels, logistics, and healthcare, if the market grows and becomes attractive to large companies, there is a risk that the differentiation effect will decrease if these large companies enter the market in earnest. Therefore, we will focus on the resource-based view advocated by Jay B. Barney et al.

The resource-based view focuses on a company's management resources and capabilities. The VRIO framework is a concrete example of this. It states that value, rarity, inimitability and organization should be considered. At Strategy Advisors, we focus particularly on inimitability.

The Difficulty of Imitating a Corporate Culture that Sympathizes with Solving Social Issues

We believe that the difficulty of imitating Kasumigaseki Capital lies in its corporate culture, where people who share the top management's vision of becoming a company that solves social issues gather together; freely exchange ideas and put promising ideas into practice themselves and in the highly adventurous and highly motivated personnel who embody this. This is not something that can be easily verified from the outside, such as by possessing cutting-edge technology or holding outstanding patents. However, the company has achieved rapid growth almost organically without relying on large M&A activity and we believe that this corporate culture and personnel are establishing the difficulty of imitating it. Let us take a closer look at this in more detail below.

2) Difficulty in Imitation

Kasumigaseki Capital has grown substantially so far and it is highly likely that its earnings will continue to expand in the future. The reasons behind this are thought to be 1) a unique business model, 2) talented personnel with a strong spirit of challenge, 3) spreading of the company's management philosophy within the company and 4) management leadership. These are thought to have created a level of inimitability that cannot be easily imitated, even by large companies with abundant financial and human resources. Alternatively, it is thought to have created an "economic moat" that large companies may be able to do if they were serious about putting in the time and effort, but rationally they would not choose to take a chance on it.

① Unique Business Model

Competitiveness in Land Procurement, Development Plans & Fund Formation

As mentioned above, the main feature of the company's business model is that after purchasing land, it formulates a development plan and sells the land to a development fund in an average of about six months. Currently, this sales profit accounts for about 60% of gross profit and is clearly the main source of the company's revenue. The requirements for this are: 1) being able to purchase a lot of land under good conditions, 2) having an attractive development plan and 3) being able to smoothly organize a development fund and sell the land due to a relationship of trust with investors.

When Purchasing Land, Experience and Track Record in the Renewable Energy Business Come into Play

When it comes to land acquisition, the company's experience with renewable energy appears to be coming in handy. As solar and wind power plants are often located in rural areas, the company's employees have traveled widely across the country in caravans to obtain information about land and build networks with local real estate agents. These efforts are still ongoing and it is believed that Kasumigaseki Capital receives a lot of information about promising land from local agents. For local agents, the large size of the property also provides an incentive to close the deal, as attractive brokerage fees can be earned. In addition, as the company values its venture spirit, it places importance on speed and as such, it is efficient for the local agents it introduces to the company, which is likely to create a virtuous cycle in which the amount of information increases even further.

In order to make all employees aware of land procurement as something that concerns them personally, the company has set a period of time during which employees, not just those in charge, are encouraged to bring in information about such cases. When a case introduced by an employee is successful, the company will pay a bonus.

The Concept and Focus are Clear

When formulating development plans, the company decides which fields to handle based on the concept that they will focus on areas where there is a social need but there is a shortage of supply and where demand is expected to continue to grow. They are currently concentrating their management resources on three areas: hotels, refrigerated/frozen warehouses and hospices in their domestic business. By narrowing their target, they are able to hire talented personnel in those fields and also utilize external resources, such as by teaming up with excellent partners. As a result, they are able to formulate plans that add high value to the land they purchase.

Building Trust with Investors Through their Track Record

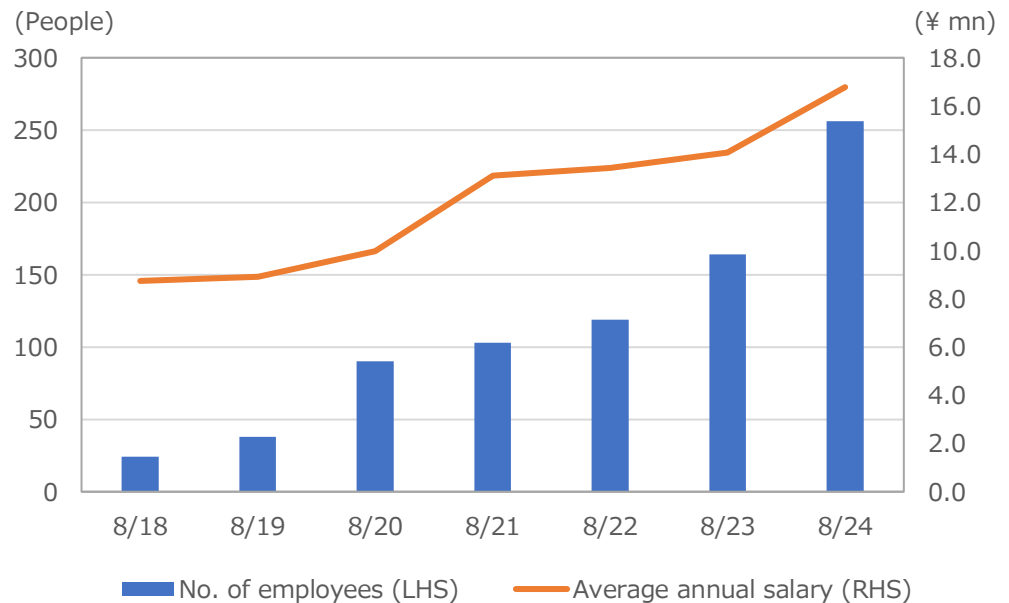
When forming development funds, the company is in regular contact with financial institutions, business companies, etc. as investors and shares information with them. Although it is a given that the property is attractive; by building such a network, a variety of investors participate in the funds it forms. In addition, the company's projects address social issues, such as the development of hotels that contribute to regional revitalization, the construction of environmentally friendly warehouses by building frozen/refrigerated warehouses that use natural refrigerants to replace fluorocarbons and alternative fluorocarbons: and hospices, which are in high demand in society due to the aging population. In these days when sustainability has become important, it is believed that investors are interested and it is easy to obtain investments.

② Excellent Human Resources with a Strong Spirit of Challenge

A Diverse Range of People from Various Backgrounds

The number of employees at Kasumigaseki Capital has increased rapidly as the company's business has expanded. The majority of employees are experienced, and come from a wide range of fields, including real estate, funds, financial institutions, professional services (accountants, lawyers, etc.), and other business companies. Looking at the trend in average salary, it was originally high in the real estate industry, but it rose significantly around the 20/8 and 21/8 periods, reaching ¥16.78 million in FY8/2024. There are 256 employees at the head office, with an average age of 37.9 years old. This exceeds the ¥12.73 million (average age 40.25 years old) of major developers Mitsubishi Estate (8802 TSE Prime) and ¥12.89 million (average age 40.3 years old) of Mitsui Fudosan (8801 TSE Prime), both of which are highly specialized in each field. This can be said to be one of the reasons why the company is able to attract talented people with high levels of expertise in each field.

Figure 42. Number & Average Salary of Parent Company Employees



Source: Company Data. Compiled by Strategy Advisors

Emphasis on Teamwork

According to President Komoto, the two things they value most when hiring are a good personality (they seem to expect the ability to work well in a team) and a desire to grow. Even if someone does not have enough skills when they join the company, they believe that such people will be able to grow after joining the company and that bringing in such people will strengthen the team. They also seem to transfer personnel at a certain frequency to prevent the organization from becoming vertically divided and place importance on communication within the company.

Motivated and Innovative People

In addition, the company often does innovative business that other companies do not do, so it requires the ability to overcome difficulties. The words that the company values, "Be the One that Creates Change," are based on the idea that it is easier to do what you want to do and increase the probability of success if you create change yourself, rather than being passive about change. In the FY8/2024 financial results briefing materials, President Komoto also showed a new message: "Surprise Us Even More." He said that the strength of the group will be strengthened by each individual becoming a key player and seeing things through to the end, and that overwhelming initiative and a sense of ownership are important. In addition, in the explanation of the hotel business at the financial results briefing, it was commented that the company is able to work with the industry's top partners thanks to the strength of its employees. Partners said that Kasumigaseki Capital employees are energetic and fun to talk to and that many people want to work with them. The results are supporting this evaluation.

Figure 43. Message from President Komoto: "Surprise Us Even More"



霞ヶ関キャピタル株式会社
代表取締役

河本幸士郎

Source: Company Data

③ Spreading of Management Philosophy

"Turning Challenges into Value"

Kasumigaseki Capital's management philosophy is "Turning Challenge into Value". Many companies claim to contribute to society, but there are probably not many that have made solving social issues their *raison d'être* and embodied it in their business like Kasumigaseki Capital. Moreover, while their core business model revolves around utilizing external capital, they are involved in different asset types, such as hotels, logistics, and healthcare; and are conscious of vertical integration, not only handling the hardware but also the software aspects of operations, making them an incredibly unique company.

"Be Bold, Reliable & Swift"

The company's guiding principle is "Be Bold, Reliable, and Swift". It is noteworthy that the company values speedy decision-making and action and seeks to act boldly, while also valuing trust.

A Simple Idea that Never Wavers

These ideas are likely the result of the unwavering convictions of the management team. What is work, and why does a company run its business? It is to create added value that is useful to society, and it is because of this that you will receive support from those around you and your chances of success will increase. This is a very simple idea. Because the company is made up of people who share this belief, it is thought that there is a strong sense of unity within the company.

④ Management Leadership

The Two Founders Have had a Huge Influence

President Komoto and Chairman Ogawa are co-founders and the top two shareholders, so it is believed that the company is strongly influenced by their values and style. President Komoto and Chairman Ogawa are considered to have the final say on major decisions, with President Komoto involved in execution as Representative Director and Chairman Ogawa overseeing the overall management and leading the overseas business.

On the Other Hand, They Value the Ideas and Suggestions of Their Employees

However, since they value their employees' free ideas and spirit of challenge, they do not give the impression of being a top-down company. The company's current main businesses, the hotel, the refrigerated and freezer warehouse, and the hospice housing, were all started based on suggestions from employees. In addition, new business competitions are held within the company and various proposals are made by employees. This reflects the desire of the top management to have employees see business as their own business.

The Management Team's Philosophy & Policies are Embedded in the Company's Culture

The number of consolidated employees is expected to reach 436 at the end of August 2024, and the company is no longer small enough for President Komoto and Chairman Ogawa to communicate directly with each other at any time. It seems that the top management's philosophy has already taken root as the company culture, but in the future, issues such as whether the company can maintain the same speed as before and whether it can maintain its venture mentality are likely to arise and attention will be focused on how it will balance this with growth.

3) The Company's DNA is to "Utilize External Capital to Thoroughly Pursue Optimization"

A company's DNA is the unique values and management philosophy that are rooted in the organization and all employees and they often become the source of a company's competitiveness. We believe that creating a business strategy that utilizes the company's DNA and putting it into practice increases the probability of success.

The Company's DNA is to "Utilize External Capital to Thoroughly Pursue Optimization"

Kasumigaseki Capital's corporate DNA can be summarized as trying to "Utilize External Capital to Thoroughly Pursue Optimization" The company has a business model in which it utilizes funds at both the development and operation stages by only using its own balance sheet for a short period of time; and this is the basis for the company's expansion into a wide range of

fields, including renewable energy, hotels, logistics, and healthcare, despite being a venture company.

Furthermore, the management's strong desire to solve social issues appears to be deeply rooted in the company as a basic attitude of focusing on gaps between societal needs and supply, and between industry practices and efficiency, and filling these gaps themselves to turn them into business opportunities. It can be said that this is a corporate culture that sees through such optimization even if the hurdles are high.

Addressing a Wide Range of Social Issues While Minimizing Risks

Utilizing external capital not only allows them to do more work with less of their own capital, but also helps them avoid risks. Even if the environment in their industry changes, it will be relatively easy to change course without suffering major damage. At the same time, focusing on social issues and exploring various business opportunities is likely to enable sustainable growth.

4) Equity Story

Equity Story: Unique Business Model & Corporate Culture Drive Sustained Profit Growth & Improved Valuation

The company's winning strategy is to focus on the gap between supply and demand created by social issues and to utilize external capital to optimize and rapidly expand its business. Growth in its current core areas is expected to continue in the medium term and the company's unique business model that combines hardware and software will continue to demonstrate its advantages. The business model, corporate culture and human resources described above are considered to be difficult to imitate, even for major companies; and it is highly likely that the company will continue to grow high profits in the medium term. In terms of stock price, it has risen significantly due to the rapid growth in profits, but valuation is only slightly higher than domestic real estate investment companies. In the medium to long term, the high valuation of Blackstone, a major global alternative investment company, may also be a reference. The company's equity story is the expectation of a sustainable rise in stock price due to improved earnings and valuation.

10. FY8/2024 Results and Immediate Outlook

Rapid Profit Growth

The full-year financial results for FY8/2024, announced on October 2nd, showed a significant increase in sales, up 76.2% year on year to ¥65.69 billion, operating profit up 92.2% to ¥8.54 billion and net profit attributable to owners of the parent company up 144.8% to ¥5.02 billion. The company's guidance was met at every stage.

Figure 44. Summary of FY8/2024 Results

(¥ mn)

	FY8/23 Actual	FY8/24 Actual	YoY	CoE	FY8/25 CoE	YoY
Sales	37,282	65,685	76.2%	60,000	95,000	44.6%
Gross Profit	10,099	18,559	83.8%	-	NA	NA
Gross Margin	27.1%	28.3%		-		
Operating Income	4,442	8,537	92.2%	8,500	16,500	93.3%
Operating Margin	11.9%	13.0%		14.2%	17.4%	
Ordinary Income	4,119	7,860	90.8%	7,500	15,000	90.8%
Net Income	2,050	5,020	144.9%	5,000	10,000	99.2%
EPS (¥)	253.2	541.7	113.9%	509.8	1,016.4	87.6%

Source: Company Data. Compiled by Strategy Advisors

Land Sales Profits, Stock Income & Contingency Fees all Increased Significantly

Gross profit increased significantly to ¥18.56 billion from ¥10.10 billion in the previous fiscal year. By revenue portfolio, gains on land sales, including rebranding, were approximately ¥11.4 billion, a significant increase from ¥6.6 billion in the previous fiscal year. In addition, contingency fees when transferring from development funds to real estate funds also increased significantly to approximately ¥3.5 billion in FY8/2024 from ¥1 billion in the previous fiscal year. By business portfolio, hotels accounted for 41%, logistics 33%, healthcare 12% and overseas for 14% and it is estimated that all of these increased compared to the previous fiscal year. The gross profit margin increased to 28.3%, up from 27.1% in FY8/2023.

Large Increase in SG&A Expenses Covered by Increased Gross Profit

Due to the rapid expansion of business scale, the number of employees has also increased significantly, causing personnel expenses to increase by ¥1.66 billion compared to the previous term. Other costs also increased, with selling and administrative expenses increasing significantly from ¥5.66 billion in FY8/2023 to ¥10.02 billion in FY8/2024. However, this was far outweighed by the increase in gross profit, resulting in a significant increase in operating profit. The operating profit margin also rose from 11.9% in the previous year to 13.0%.

Business Scale Doubled from Previous Period

The business scale, including pipeline and AUM, reached ¥491.6 billion at FY8/2024, up ¥188.5 billion (62.2%) from the previous fiscal year. Considering that residence funds decreased ¥44.9 billion, other funds increased ¥233.4 billion (104.0%). Hotels, logistics, healthcare and overseas businesses all increased significantly. In addition, the business scale per project is also increasing, which is presumed to have led to improved efficiency.

Figure 45. Pipeline and AUM business scale

	End of FY8/23		End of FY8/24		YoY		Amount per Project	
	No. of Projects	Amount (¥ bn)	No. of Projects	Amount (¥ bn)	(¥ bn)		End of FY8/23	End of FY8/24
Logistics	15	149.4	19	247.5	98.1	65.6%	10.0	13.0
Hotel	23	56.2	44	158	101.8	181.1%	2.4	3.6
Healthcare	7	12.9	15	37	24.1	186.8%	1.8	2.5
Overseas Business	4	6.1	8	15.6	9.5	155.7%	1.5	2.0
Residence Fund	42	78.3	13	33.4	-44.9	-57.3%	1.9	2.6
Total	91	303.1	99	491.6	188.5	62.2%	3.3	5.0
(Excluding Residential Funds)	49	224.8	86	458.2	233.4	103.8%	4.6	5.3

Source: Company Data. Compiled by Strategy Advisors

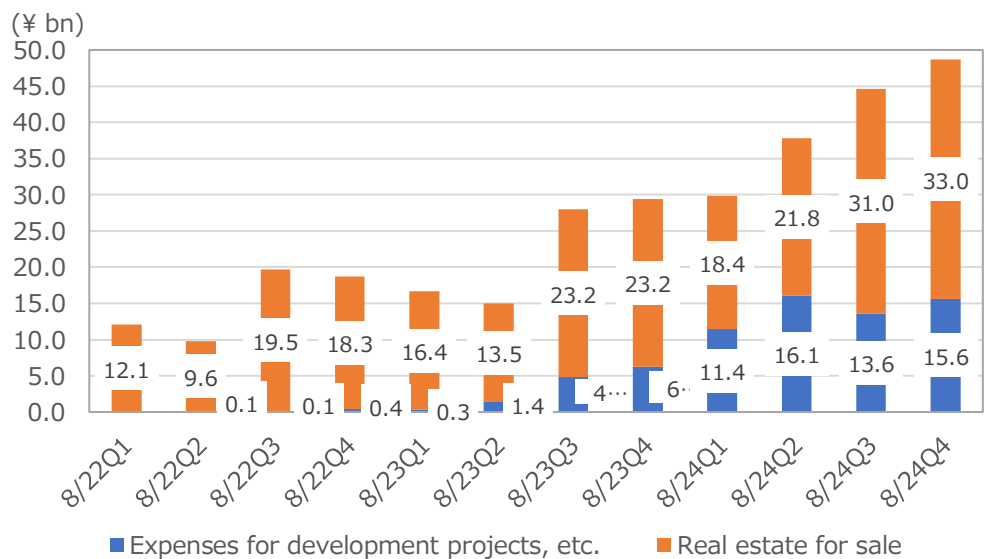
Significant Profit Growth Will Continue in FY8/2025

The company's forecast for FY8/2025 is sales of ¥95 billion, up 44.6% YoY, operating income of ¥16.5 billion, up 93.3% YoY and net income of ¥10 billion, up 99.2% YoY. This corresponds to the planned figure for FY8/2025 (net income of ¥10 billion), which was achieved one year ahead of schedule in the mid-term management plan, which originally had FY8/2026 as its final year.

Inventory is Also Progressing Smoothly

Looking at the trend in inventory, a leading indicator of profits, there has been a sharp increase from Q1 to Q4 in FY8/2024. As sales from land sales have also increased significantly, purchases are expanding at a pace that far exceeds that. In addition, as the project progresses, stock income and contingency fees are expected to increase further. For this reason, it is considered quite possible to achieve the company's forecast sales and profits for FY8/2025. With the number of consolidated employees expected to increase by another 100 people, labor costs included in selling and general administrative expenses are expected to increase further, but this is expected to far exceed the increase in gross profit.

Figure 46. Quarterly Inventory Trends



Source: Company Data. Compiled by Strategy Advisors

11. Mid to Long-Term Outlook

The First Mid-Term Business Plan up to the End of Fiscal Year 2025 was Achieved

The performance targets of the first medium-term business plan, which ends in the fiscal year ending August 2025, are expected to be achieved. When the plan was announced in October 2021, the market was likely initially skeptical about the possibility of achieving the targets, but in October 2023, the company announced that it expected to achieve their targets one year ahead of schedule and the market has gradually factored in the increased likelihood of the targets being achieved.

Announced the Second Mid-Term Management Plan. Target for Net Profit of ¥50 billion in FY8/2029

On October 2nd, at the same time as announcing the financial results, the company announced its second mid-term management plan for the period from FY8/2025 to FY8/2029. According to the plan, net income is expected to expand rapidly from ¥10 billion in FY8/2025 to ¥15 billion in FY8/2026 and ¥50 billion FY8/2029. The plan calls for a tenfold increase in net income in five years from the actual results in FY8/2024; and at the briefing the day after the announcement, President Komoto expressed confidence in achieving this. In the first mid-term plan, the CAGR (annual growth rate) from FY8/2022 to the forecast for FY8/2025 was 115%, but in the new mid-term plan, the CAGR is 50%, so this is quite possible to achieve this goal.

AUM to Reach ¥1.5 trillion in FY8/2029

Regarding AUM (construction started/completed), the company plans to increase the figure from ¥306.1 billion at the end of FY8/2024 to around ¥500 billion at the end of FY8/2025 and to ¥700 billion at the end of FY8/2026, aiming for ¥1.5 trillion at the end of FY8/2029, the final year of the medium-term plan.

Strong Revenue Growth is Likely to Continue

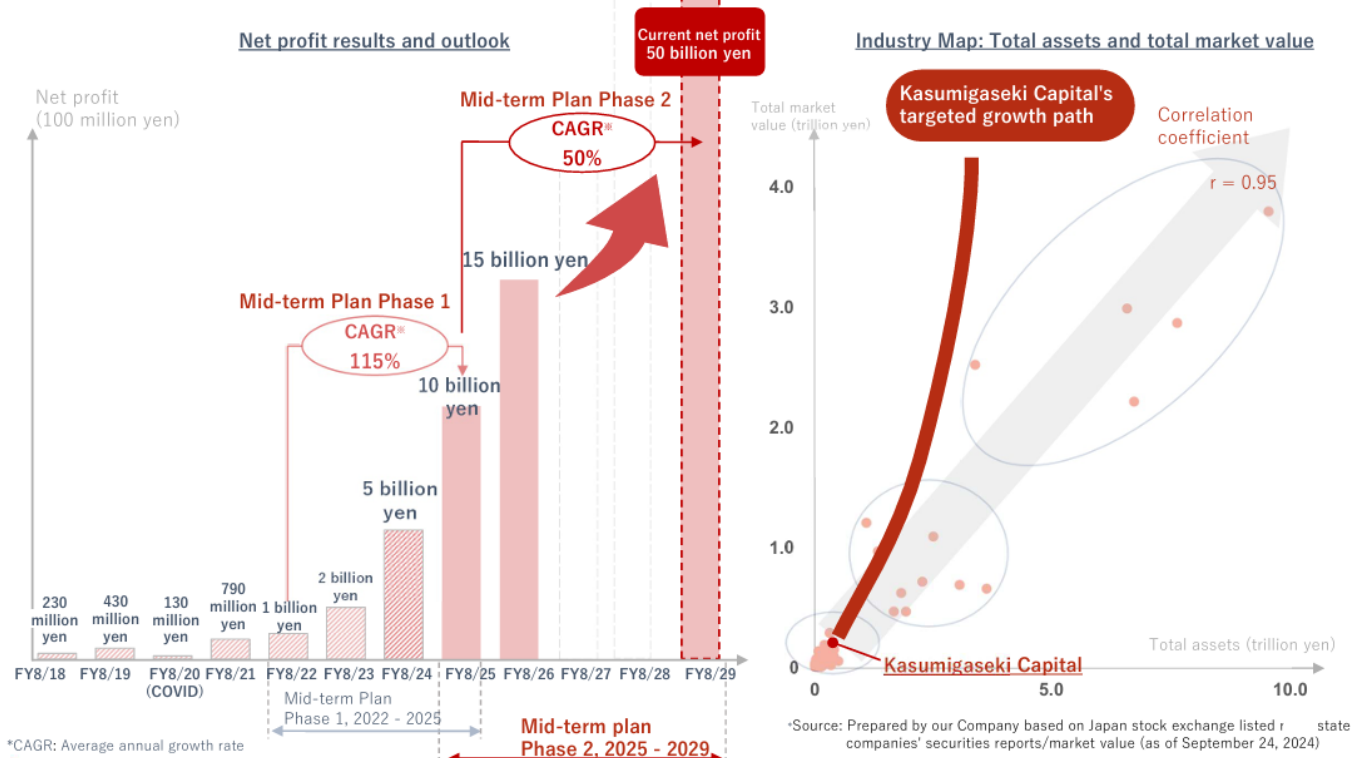
Considering the track record so far, the rapid increase in projects at present, and the fact that stock income is expected to grow significantly due to an increase in the number of completed properties, it is highly likely that earnings will expand significantly over the next five years. As it is believed that the company is already well within reach of achieving a net income of ¥10 billion in FY8/2025 due to the progress of ongoing projects, attention will be focused on the speed at which new projects will increase in the future.

Each of the 4 Areas Will Expand

By business portfolio, as shown in Figure 49, the second medium-term management plan projects that revenues for FY8/2029 will come from four areas: existing hotels, logistics, healthcare and overseas. In the first medium-term management plan, it was not expected that the hotel business would recover so rapidly and the healthcare business and overseas business in Dubai were not included; so, there is a possibility that businesses in asset classes currently under consideration will start in the future.

Figure 47. Overview of the Second Medium-Term Management Plan

Phase 2 mid-term management plan formulation: Net profit (FY8/2025 – FY8/2029)

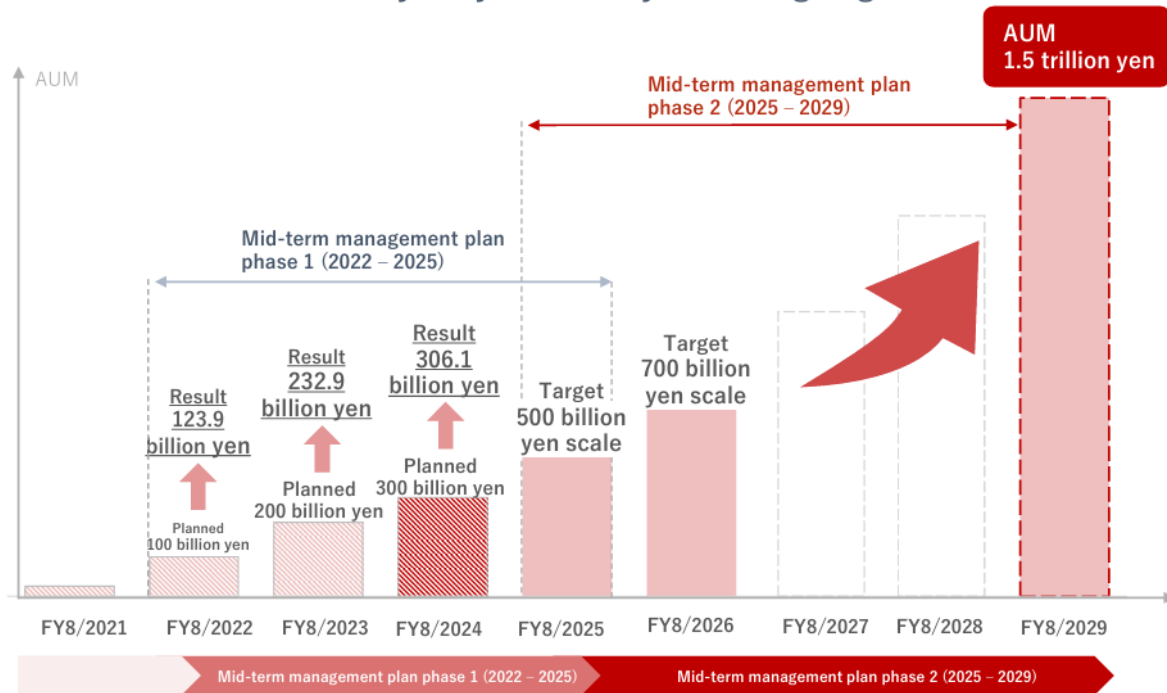


Source: Company Data

Figure 48. Outline of the Second Medium-Term Management Plan

Phase 2 mid-term management plan formulation: AUM (FY 8/2025 – FY 8/2029)

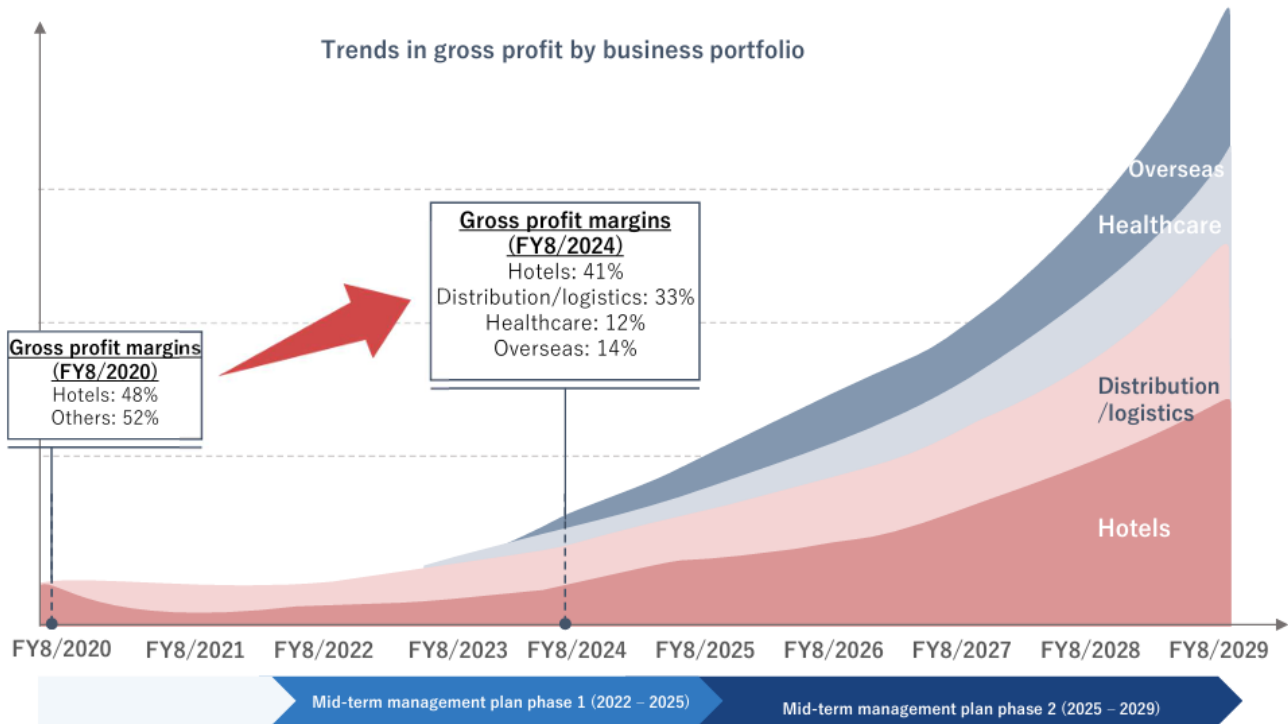
AUM for the fiscal years ending August 2022 to August 2024 has achieved the mid-term management plan. Through diversification and scaling of the business, we aim to reach an AUM of 1.5 trillion yen by the fiscal year ending August 2029.



Source: Company Data

Figure 49. Trends in Gross Profit by Business Portfolio (Reposted)

Business portfolio trends are diversified to accommodate the market environment and market issues
The gross margin for each business is in the 25 – 35% range.



Source: Company Data. Compiled by Strategy Advisors

Expanding Beyond Existing Territories

In addition, the company is considering expanding its business into areas surrounding its existing domains. For example, in order to optimize logistics, it is building a system that can suggest what storage and delivery methods each shipper should use to reduce costs. To that end, it is believed that the company is considering expanding into the transportation industry and other areas. It also appears that the company is considering providing related services to hotels.

Funding Remains an Issue

Considering future growth, securing funds will continue to be an issue. It is assumed that the ¥22 billion raised through equity financing announced on October 17th has secured the necessary funds for the time being. However, as the scale of business is different from before, the scale of capital needs has also increased dramatically, and fundraising will continue to be an important issue for the company.

12. Comparison with Other Companies in the Same Industry and Stock Price Trends

1) Comparison with Other Companies in the Same Industry

The company has built its own business model and it is believed that there are no direct competitors that can be used for comparison. Therefore, in considering profitability and stock price valuation, the comparison will be with real estate investment companies with limited balance sheets and high turnover businesses using fund schemes, as they are in a relatively similar business model.

Specifically, Sun Frontier Real Estate (8934 TSE Prime), Roadster Capital (3482 TSE Prime), Tosei (8923 TSE Prime) and Ichigo (2337 TSE Prime) are some of the companies that are notable for their profitability. Kasumigaseki Capital's total asset turnover rate is much higher than that of other companies. This is because all of its businesses are conducted under a scheme in which land is purchased, plans are designed, and then the land is sold to a development fund in an average of about six months. At present, the proportion of profits from land sales is higher than contingency fees and stock income, so the profit margin on sales is slightly lower than that of other companies, but the ROA, which indicates the return on assets, is 7.6%, the highest among the real estate investment companies used for comparison. The ROE is also the second highest after Roadster Capital, which has a high degree of leverage.

For reference, the profitability of major developers is also listed, but all of them have low total asset turnover and not significantly high profit margins, so their ROA and ROE are also significantly lower than Kasumigaseki Capital and the real estate investment companies mentioned above. This is because they use large balance sheets to carry out everything from land purchases to construction and their business models are very different. As for rivals in the hotel and healthcare industries, their business models are also different, so a simple comparison of profitability is not possible, but it will be useful when considering valuation, which will be discussed later.

Comparison with Real Estate Investment Companies Using Fund Schemes

Major Developers have Low Asset Turnover

Figure 50. Comparison with Other Companies in the Same Industry (Profitability)

Stock Code	Company Name	Latest FY	Sales ¥ bn	Gross Profit Margin %	Operating Income Margin %	Net Income Margin %	ROE %	ROA %	Leverage Times	Total Asset Turnover Times
3498	Kasumigaseki Capital	8/24	65.7	28.3	13.0	7.6	26.3	8.3	2.9	1.08
Real Estate Investment										
2337	Ichigo	2/24	82.7	25.2	15.7	14.6	11.6	3.4	3.5	0.23
3482	Loadstar Capital	12/23	28.7	35.1	28.7	17.0	28.7	6.9	3.9	0.41
8923	Tosei	11/23	79.4	38.1	20.5	13.2	13.6	4.6	3.0	0.35
8934	Sun Frontier Fudosan	3/24	79.9	33.1	22.0	14.9	13.9	7.0	2.1	0.47
	Average			32.9	21.7	14.9	16.9	5.5	3.1	0.36
Major Developers										
3003	Hulic	12/23	446.4	44.0	32.7	21.2	13.0	3.9	3.2	0.19
8801	Mitsui Fudosan	3/24	2,383.3	24.9	14.3	9.4	7.5	2.5	3.1	0.26
8802	Mitsubishi Estate	3/24	1,504.7	26.1	18.5	11.2	7.4	2.3	3.2	0.21
	Average			31.7	21.8	13.9	9.3	2.9	3.2	0.22
Hotel										
4681	Resorttrust	3/24	201.8	84.6	10.5	7.9	12.9	3.5	3.6	0.44
9616	Kyoritsu Maintenance	3/24	204.1	24.0	8.2	6.1	15.4	4.6	3.1	0.75
9722	FUJITA KANKO	12/23	64.5	15.1	10.3	12.6	33.4	8.4	3.6	0.67
	Average			41.2	9.6	8.8	20.6	5.5	3.5	0.62
Healthcare										
7061	Japan Hospice Holdings	12/23	9.9	19.5	13.0	6.9	29.0	5.1	5.6	0.74
7071	Amvis Holdings	9/24	42.5	40.2	25.0	17.5	24.9	11.7	2.2	0.67
9158	CUC	3/24	33.0	48.2	11.3	7.9	13.3	5.1	2.3	0.64
	Average			36.0	16.4	10.8	22.4	7.3	3.4	0.68

Source: Company Data. Compiled by Strategy Advisors

Kasumigaseki Capital's Stock Price Performance is Outstanding

Comparing the stock price performance of Kasumigaseki Capital with the real estate investment companies listed above, we can see that the company has significantly outperformed its competitors since the second half of 2022. The company's stock price has risen 8 to 10 times since 2021. This is likely due to the announcement in October 2021 that it should achieve the targets of its medium-term management plan ahead of schedule and the rapid expansion of its performance accordingly.

Fast Earnings Growth Justifies Relatively High Valuation

Comparing valuations, Kasumigaseki Capital's PER is 13.6 times (based on diluted potential shares) and PBR is 4.5 times, significantly higher than the averages of other real estate investment companies, 8.4 times and 1.5 times, respectively. This is thought to be because the stock market expects the company's future pace of business growth to be significantly faster than other companies. Kasumigaseki Capital is forecasting net income of ¥10 billion for FY8/2025 and ¥15 billion for FY8/2026. Therefore, the PER based on the forecast for FY8/2026 is 9.1 times.

Many other companies are expected to increase their earnings as well, but in the longer term, the difference in valuation will likely be made up by the

difference in the pace of business growth. The high PBR is likely due in part to the high ROE, but it is also believed to be driven by the fact that Kasumigaseki Capital's stock price is based on high profit growth. Taking into account the increase in equity capital through the issuance of convertible bonds announced in October, the PBR is also estimated to fall below 3 times.

Overseas, US company Blackstone has a High Valuation

Also, on the global side, there is Blackstone (BX NYSE), a giant in alternative investments. The company's AUM as of the end of September 2024 was a massive \$1.1 trillion, of which \$325.1 billion was in real estate investments. It is a huge company that is also believed to be investing in hotels and logistics facilities in Japan. At its peak in 2021, the company's net income was \$5.86 billion, and it was subsequently affected by rising US interest rates, but has since recovered. The stock price has been adjusting since 2021, but is currently at a new high. The PER against the consensus forecast for 2024 is 38.7 times and the company has a high valuation due to its track record of high growth and expectations for the future. Although there are differences in size and business type, as a high-growth real estate fund-related company, it can be used as a reference for justifying its relatively high valuation.

Kasumigaseki Capital | 3498 (TSE Prime)

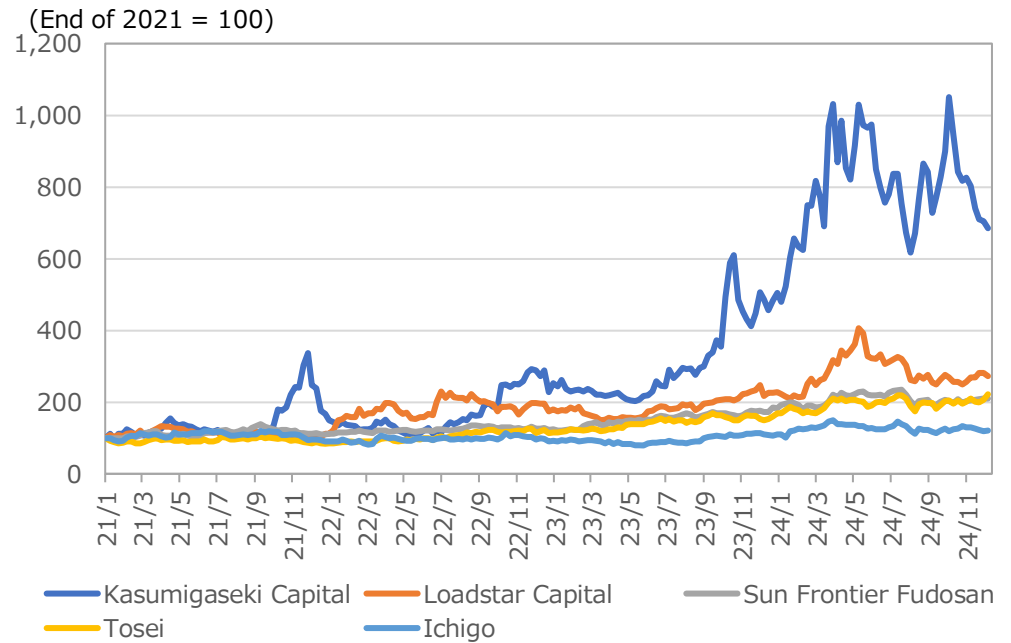
Figure 51. Comparison with Other Companies in the Same Industry (Valuation)

Stock Code	Company Name	Stock Price (12/17) (¥)	Market Capitalization (¥ bn)	PER (CoE) (Times)	PBR (Times)	ROE (%)	Dividend Yield (CoE) (%)	EV/EBITDA (Times)
3498	Kasumigaseki Capital	12,260	120.6	13.6	4.5	26.3	2.0	8.9
Real Estate Investment								
2337	Ichigo	358	157.7	11.2	1.5	11.6	2.8	16.5
3482	Loadstar Capital	2,482	40.8	5.9	2.2	28.7	2.8	5.8
8923	Tosei	2,477	119.8	10.2	1.5	13.6	3.1	11.3
8934	Sun Frontier Fudosan	1,868	90.7	6.5	1.0	13.9	3.5	5.3
	Average			8.4	1.5	16.9	3.1	9.7
Major Developers								
3003	Hulic	1,330.5	1,012.4	10.3	1.3	13.0	3.9	13.8
8801	Mitsui Fudosan	1,236	3,470.4	14.7	1.1	7.5	2.4	16.6
8802	Mitsubishi Estate	2,135.5	2,704.0	15.5	1.1	7.4	2.0	14.0
	Average			13.5	1.2	9.3	2.8	14.8
Hotel								
4681	Resorttrust	3,112	329.5	19.3	2.5	12.9	1.7	9.9
9616	Kyoritsu Maintenance	2,845.5	222.6	17.8	2.6	15.4	1.1	13.0
9722	FUJITA KANKO	8,050	96.5	12.7	6.2	33.4	0.0	8.4
	Average			16.6	3.8	20.6	1.0	10.4
Healthcare								
7061	Japan Hospice Holdings	1,403	11.3	12.9	4.2	29.0	0.0	10.2
7071	Amvis Holdings	746	73.0	12.6	2.2	24.9	0.5	9.2
9158	CUC	1,695	49.7	22.6	1.8	13.3	0.0	11.7
	Average			16.0	2.7	22.4	0.2	10.4
Global								
BX	Blackstone Inc	(US\$) 183.11	(US\$ bn) 140.6	42.1	20.6	19.2	2.1	23.7

Note: Kasumigaseki Capital's PER (company forecast) is calculated as EPS, which is the company's forecast net income for the current period divided by the number of diluted shares. Blackstone's P/E and dividend yield are taken from FactSet Consensus. EBITDA in EV/EBITDA is calculated by adding the company's forecast operating profit and the most recent actual depreciation expenses.

Source: Company Data. Compiled by Strategy Advisors

Figure 52. Stock Price Trends of Real Estate Investment Companies



Source: Strategy Advisors

2) Stock Price Trends

Stock Prices Rose Sharply Following Announcement of Mid-Term Plan

Kasumigaseki Capital's share price has been on an upward trend, with trading volume increasing significantly since the company announced its first medium-term management plan in October 2021; and although the share price has fluctuated, it has been on an upward trend. In October 2023, the company announced a change in plan to achieve its target for FY8/2026 ahead of schedule in FY8/2025, accelerating the rise in its share price. Then, in October 2024, the company announced its second medium-term management plan, which aimed to achieve a net income of ¥50 billion in FY8/2029, 10 times the actual result for FY8/2024 and the share price soared. The share price then fell once due to the issuance of convertible bonds and is currently trending weakly like its competitors, mainly due to the macro environment.

Figure 53. Kasumigaseki Capital Stock Price & Trading Volumes



Source: Strategy Advisors

The Rise in Stock Price is Mainly Due to the Rapid Expansion of Earnings. But, PER has not Increased

The company's significant share price rise to date is likely due to its track record of rapidly growing earnings and future expectations. As shown in Figure 52, when comparing the share price trends with those of comparable real estate investment companies, Kasumigaseki Capital's share price rise stands out. Meanwhile, looking at the trend in Kasumigaseki Capital's PER, it has remained almost flat due to the rapid expansion of EPS. The level is also in the somewhat high range of 15 to 30 times the EPS for the current fiscal year, but is 10 to 15 times on a basis for the following fiscal year. This is not much different from the levels of major developers, hotel management companies and hospice housing management companies.

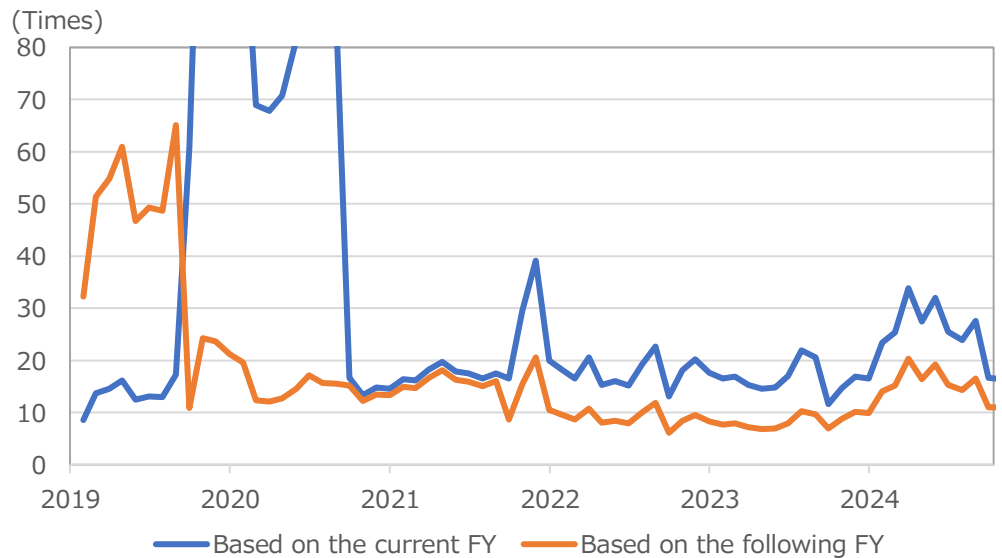
Kasumigaseki Capital's Stock Price is Driven by Singular Factors

Since May of this year, stock prices in the real estate sector have generally been adjusting, mainly due to macro factors such as concerns about rising interest rates due to changes in Japan's monetary policy and the impact of the sudden fall in the overall stock market. A certain degree of uncertainty is expected to continue in the future for the stock market as a whole and the real estate sector in general. However, individual factors are still thought to be very large, such as the sharp rise in Kasumigaseki Capital's stock price following the announcement of its second medium-term management plan.

Share Price is Expected to Rise as Business Performance Improves

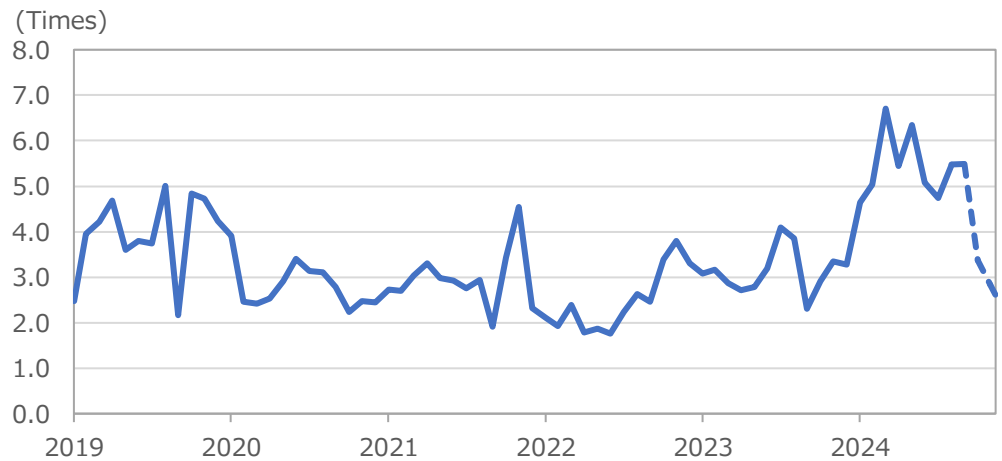
The company's performance is already highly visible due to leading indicators such as AUM and inventory and it is highly likely that the company's forecast for FY8/2025 will be achieved. As a result of the stock price adjustment, current valuation can be said to be at a low level given the high profit growth potential. The next thing to watch will be whether the company's forecast for net income of ¥15 billion for FY8/2026 will be achieved. As mentioned above, the four businesses of hotels, logistics, healthcare and overseas have high growth potential; and the company has also raised funds to purchase land and buildings, so it is highly likely that the company's performance will continue to grow at a high rate. In the medium term, if the company continues to achieve the target of ¥50 billion in net income for FY8/2029 announced in the second mid-term plan, there will be a large upside for the stock price. In terms of valuation in the medium to long term, as the market capitalization increases, the relatively high valuation compared to alternative investment giants such as Blackstone may be justified.

Figure 54. Trends in PER



Note: FY8/25 forecast EPS is calculated by dividing the company's forecast net income by the number of diluted shares issued. FY8/26 forecast EPS is calculated based on projected net income and diluted number of shares issued in the mid-term plan.
Source: Strategy Advisors

Figure 55. Trends in PBR



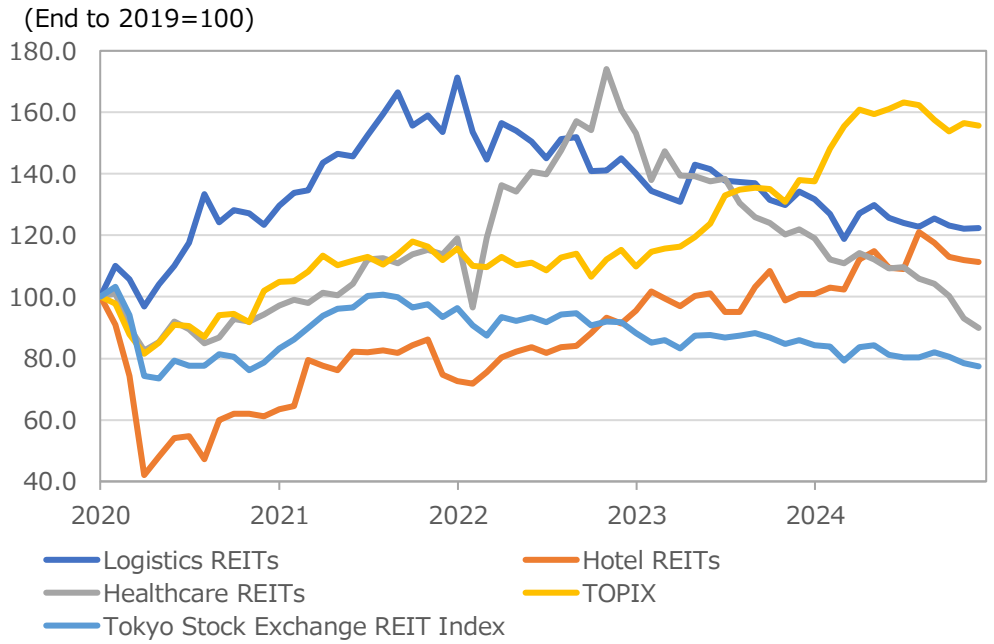
Note: From October 2024 onwards, the theoretical BPS value (¥22 billion increase in capital through CB issuance to equity capital at the end of FY8/2024). The formula used is number of diluted shares issued.

Source: Strategy Advisors

Portfolio Support for the Macro Monetary Policy Committee

Figure 56 compares the stock price performance of REITs that mainly hold logistics, hotel and healthcare properties handled by Kasumigaseki Capital. Hotel-related stocks fell sharply due to the COVID-19 pandemic that began in the spring of 2020, but logistics-related stocks rose sharply due to increased demand for e-commerce. They have been moving in the opposite direction since 2022, when the COVID-19 pandemic has run its course. Although healthcare is a single stock, it has generally hit high prices in the second half of 2022, including related stocks and is moving independently. In other words, because Kasumigaseki Capital operates in three different cycles, it is likely to be resistant to macroeconomic fluctuations.

Figure 56. Stock Price Performance of REITs by Industry



Note: Logistics REITs are CRE Logistics REIT (3487), SOSiLA Logistics REIT (2979), LaSalle LOGIPORT REIT (3466), Mitsubishi Estate Logistics REIT (3481), Mitsui Fudosan Logistics Park (3471), GLP J-REIT (3281), Nippon Prologis REIT (3283), and Japan Logistics Fund (8967). Hotel REITs are Ichigo Hotel REIT (3463), Invincible (8963), Japan Hotel REIT (8985), Nippon Hotel & Residential (3472), and Hoshino Resorts REIT (3287). Healthcare REIT is Healthcare & Medical (3455).

Source: Strategy Advisors

13. Sustainability

1) Corporate Governance

Audit & Supervisory Committees in Place

Kasumigaseki Capital is a company with Board of Corporate Auditors and has 32 consolidated subsidiaries (as of the end of August 2024). In January 2024, the investment management company Rheos Capital Works held 10.1% of the shares for pure investment purposes, but as of June 2024, its ownership ratio had decreased to 1.5%. The founders, Chairman and Director, Hiroyuki Ogawa, holds 23.6% and President and CEO, Koshiro Komoto, holds 8.3% (as of the end of August 2024) respectively.

Composition of the Board of Directors

Of the 14 directors, 9 are outside directors (64%) and 5 are independent directors (35%). There are 8 directors (3 of which are outside directors) and 6 directors who are audit and supervisory committee members (6 of which are outside directors).

Principle 4-8 of the Corporate Governance Code requires companies listed on the Prime Market to appoint at least one-third independent outside directors, and recommends the appointment of a majority. Kasumigaseki Capital changed its listing market from the Growth Market to the Prime Market in October 2023, but still meets the one-third or more standard.

Of the 14 directors, one is a woman (7.1% female director ratio). In September 2022, the company established a voluntary Nomination and Compensation Committee as an advisory body to the Board of Directors. The Nomination and Compensation Committee is composed of five directors (including three independent outside directors) selected by the Board of Directors.

Kasumigaseki Capital cites reliance on a specific manager as one of its business risks. President Komoto and Chairman Ogawa, who have been driving the company's business since its inception, have extensive experience and knowledge in real estate and real estate finance and also play important roles in Kasumigaseki Capital's overall management. The two men hold more than 30% of the company's shares. The CEO succession plan will be discussed and considered in the Nomination and Compensation Committee and other committees in the future.

Figure 57. Director Skills Matrix

Name	Title	Business Expertise			Global	IT/ Technology	ESG/ Sustainability	Accounting	Legal/Risk Management
		Real Estate	Finance	Operation					
Hiroyuki Ogawa	Chairman of the Board	◎			◎		○	○	○
Koshiro Komoto	President & CEO	◎	◎		○		○	○	○
Ryo Sugimoto	Executive Vice President	◎	○	○ (Logistics)		○	○		
Kazunari Hirose	Internal Director		◎				○	○	○
Hidekazu Ogata	Internal Director	◎	○	○ (Hotel)		○	○		
Kazuo Mori	Independent Outside Director		◎		○			○	
Masahiko Hara	Independent Outside Director		◎					○	
Shogo Hayakawa	Outside Director				○	◎			
Toshio Sasaki	Independent Outside Director (Audit & Supervisory Board Member)		◎					○	
Chifumi Toda	Outside Director (Audit & Supervisory Board Member)	◎	○						○
Hiroki Aoyama	Outside Director (Audit & Supervisory Board Member)	○	○		○		○		◎
Ayumi Fukuhara	Outside Director (Audit & Supervisory Board Member)						○	○	◎
Yuichiro Munakata	Independent Outside Director (Audit & Supervisory Board Member)				○		○	◎	○
Masayuki Kobayashi	Independent Outside Director (Audit & Supervisory Board Member)							○	◎

Note: Among the skills marked with ○, the most representative skills are marked with ◎.

Source: Kasumigaseki Capital

2) Sustainability Initiatives

Business Development Aligned with SDG's

Based on the management philosophy of "Turning Challenge into Value," the company is expanding its business in "business fields with growth potential" and "businesses with social significance" and is working on initiatives focusing on the SDG's. With regard to sustainability, the company positions the board of directors as the highest decision-making body for discussing and deciding basic policies and important issues regarding sustainability in general.

Regarding sustainability issues, the company has established an "Environmental Business Promotion Office" to consider specific initiatives regarding sustainability issues and have begun initiatives to the extent possible, but we have not yet formulated a basic policy regarding sustainability initiatives. In the future, we will consider formulating a basic policy after thoroughly discussing important matters, including a basic policy regarding our own sustainability initiatives.

Regarding climate change, the company has not implemented any special initiatives since its bases are mainly rented offices, and the amount of GHG emissions is low and there is limited room for reduction through its own efforts. However, as shown in the table below, the company is implementing initiatives related to SDGs and ESG in its logistics, hotel and healthcare businesses.

In its logistics facility development business, the company is implementing development that contributes to mitigating climate change. Specific initiatives include: 1) using natural refrigerants in freezer/refrigerated warehouses, 2) adopting a policy of obtaining CASBEE Real Estate Assessment Certification "Rank A" or an equivalent for all logistics facilities, and 3) installing solar panels on the roofs of logistics facilities.

As a result, the company has formulated a green loan framework and a sustainability-linked finance framework, and obtained a second opinion from a third-party evaluation agency, Rating Investment Information, Inc. Eight financing projects have already been carried out using these frameworks.

Figure 58. Kasumigaseki Capital's Sustainability Initiatives

Logistics Business

Adopt natural refrigerants with low greenhouse effect for refrigerants used in frozen and refrigerated warehouses

Policy to obtain CASBEE real estate evaluation certification "A rank" or equivalent

Installed a solar power generation system on the rooftop

Creating a comfortable working environment for people from all walks of life by introducing universal design

Development of automated refrigerated warehouses with better working environment compared to conventional refrigerated warehouses

Hotel Business

Minimizing services in the hotel to help stimulate the local economy and stabilize finances

Providing universal rooms for guests in wheelchairs and elderly guests, as well as support for people with disabilities

Healthcare Related Facilities Business

For hospice housing, contribute to improving the provision of end-of-life care, a shortage of which will accelerate in the future

Develop in locations with good transportation access (easy to visit, easy to commute, flexible work environment)

Source: Kasumigaseki Capital. 13th Securities Report (August 2024)

Human Capital

With regard to human capital, the company is formulating its human resource development and recruitment strategies based on the guiding principle of "Bold. Reliable. Swift." The company is still in a period of rapid growth and the number of employees is increasing significantly every year, so indicators such as the ratio of female managers fluctuate greatly due to factors such as the increase in the number of employees and no numerical targets have been set at this time.

14. Risk Factors

The following are risk factors to consider when considering Kasumigaseki Capital's performance and stock price.

Possibility of Dilution Due to Capital Increases

First, fund raising through capital increases is expected to have a short-term impact on the stock price. As mentioned above, the growth potential of demand in the three domestic areas in which the company deals is very high, and even though the company's business model utilizes external capital, there is a strong need for funds to purchase land. The company just announced the issuance of convertible bonds in October 2024, so this is not expected again in the near future, but there is a risk of capital increases and the associated dilution from time to time. However, the funds will be used to purchase land for growth and are likely to contribute to sales and profits in about six

months, compensating for the dilution and increasing EPS. Therefore, the impact on the stock price will be temporary.

Potential for Increased Competition

In the medium term, competition may intensify in the company's core fields. For the time being, the growth potential is high and the company's differentiation measures are likely to continue to give it an advantage, so short-term risks are likely to be small. However, if the market grows to an attractive size for major players, there is a possibility that supply will increase. In that case, this could have a negative impact on profits from land sales and contingency fees. The key will be how the company can improve on the advantages it currently has.

The Impact of Rising Interest Rates

Rising interest rates may also have a negative impact on the real estate market and transactions. As the company has a low level of interest-bearing debt in the industry and has a short landholding period, the direct impact is expected to be smaller than that of its competitors. However, there is a possibility that the cap rates of development funds and real estate funds will rise, affecting sales prices and capital costs.

Figure 59. Income Statement

(¥ mn)

FY	8/19	8/20	8/21	8/22	8/23	8/24
Net Sales	5,352	8,008	14,295	20,780	37,282	65,685
YoY	32.4%	49.6%	78.5%	45.4%	79.4%	76.2%
Cost of Sales	3,559	5,693	9,885	14,601	27,183	47,125
Gross Profit	1,793	2,315	4,410	6,178	10,099	18,559
Gross Profit Margin	33.5%	28.9%	30.8%	29.7%	27.1%	28.3%
SG&A Expenses	1,094	1,989	3,081	4,036	5,656	10,022
Operating Income	699	326	1,328	2,141	4,442	8,537
YoY	88.9%	-53.4%	307.4%	61.2%	107.5%	92.2%
Operating Income Margin	13.1%	4.1%	9.3%	10.3%	11.9%	13.0%
Non-Operating Income	12	8	7	84	249	347
Interest and Dividend Income	0	3	0	3	3	5
Non-Operating Expenses	71	154	299	493	572	1,025
Interest Expense and Discount	39	83	175	337	370	667
Ordinary Income	639	180	1,037	1,732	4,119	7,860
YoY	86.8%	-71.8%	476.1%	67.0%	137.8%	90.8%
Ordinary Income Margin	11.9%	2.2%	7.3%	8.3%	11.0%	12.0%
Extraordinary Income	0	218	675	89	45	498
Extraordinary Loss	0	201	676	275	191	312
Pretax Profit	639	197	1,035	1,546	3,973	8,045
YoY	84.1%	-69.2%	425.4%	49.4%	157.0%	102.5%
Pretax Profit Margin	11.9%	2.5%	7.2%	7.4%	10.7%	12.2%
Total Income Taxes	204	73	245	508	1,487	2,627
(Corporate Tax Rate)	31.9%	37.1%	23.7%	32.9%	37.4%	32.7%
Net Income	435	123	789	1,038	2,486	5,417
Net Income Attributable to Non-Controlling Interests	0	-11	-3	20	435	397
Net Income Attributable to Owners of Parent	435	134	793	1,018	2,050	5,020
YoY	90.8%	-69.2%	491.8%	28.4%	101.4%	144.9%
Net Income Margin	8.1%	1.7%	5.5%	4.9%	5.5%	7.6%
EPS (¥)	81.7	21.7	121.4	132.9	253.2	541.7

Source: Company Data. Compiled by Strategy Advisors

Figure 60. Balance Sheet

(¥ mn)

FY	8/19	8/20	8/21	8/22	8/23	8/24
Current Assets	5,794	7,125	10,705	25,759	37,350	67,066
Cash & Deposits	572	2,179	3,607	5,393	5,897	11,064
Accounts Receivable	134	29	137	233	265	1,203
Inventory	4,076	3,920	5,141	18,704	29,410	48,670
Allowance for Doubtful Accounts	-1	0	0	-8	-13	-16
Other Current Assets	1,013	997	1,820	1,437	1,791	6,145
Fixed Assets	1,146	1,312	4,321	4,666	6,418	10,474
Tangible Fixed Assets	947	774	3,276	3,236	2,382	4,488
Intangible Fixed Assets	19	21	76	74	78	778
Investments & Other Assets	179	517	968	1,356	3,956	5,207
Investment Securities	0	75	123	331	1,658	2,196
Deferred Tax Assets	2	91	274	290	425	548
Others	177	351	571	735	1,873	2,463
Deferred Assets	3	2	13	10	11	7
Total Assets	6,944	8,440	15,040	30,437	43,780	77,549
Current Liabilities	1,751	2,593	4,139	13,889	16,166	22,130
Trade Payables	0	0	0	0	0	0
Interest-Bearing Debt	863	2,054	2,725	11,873	13,023	16,227
Others	888	539	1,414	2,016	3,143	5,903
Fixed Liabilities	3,635	1,973	5,994	7,187	15,932	27,678
Interest-Bearing Debt	3,490	1,920	4,779	6,532	15,260	25,661
Deferred Tax Liabilities	0	0	398	348	358	1,177
Others	145	53	817	307	314	840
Net Assets	1,556	3,873	4,906	9,360	11,681	27,739
Shareholders' Equity	1,556	3,863	4,833	9,218	11,106	27,125
Capital	408	1,586	1,643	3,514	3,549	9,287
Capital Surplus	313	1,495	1,561	3,438	3,453	9,206
Retained Earnings	834	914	1,644	2,529	4,145	8,673
Accumulated Other Comprehensive Income	0	-3	-1	-21	-56	-274
Stock Acquisition Rights	0	12	46	80	134	180
Non-Controlling Interests	0	0	28	82	496	708
Liabilities & Net Assets	6,944	8,440	15,040	30,437	43,780	77,549
Equity Capital	1,556	3,860	4,832	9,197	11,050	26,851

Source: Company Data. Compiled by Strategy Advisors

Figure 61. Cash Flow Statement

(¥ mn)

FY	8/19	8/20	8/21	8/22	8/23	8/24
Cash Flows from Operating Activities						
Net Income Before Taxes and Other Adjustments	639	197	1,035	1,546	3,973	8,045
Depreciation and Goodwill Amortization	141	148	199	269	300	536
Increase/Decrease in Accounts Receivable	-106	104	-106	-96	-31	-636
Increase/Decrease in Accounts Payable	0	0	0	0	0	0
Increase or Decrease in Inventory	-2,426	376	322	-12,812	-9,399	-10,014
Other Operating Cash Flows	-750	-540	-478	-596	-2,771	-6,377
Total	-2,502	285	972	-11,689	-7,928	-8,446
Cash Flows from Investing Activities						
Expenditures for Acquisition of Tangible Fixed Assets	-245	-109	-1,664	-203	-465	-1,899
Proceeds from Sales of Property, Plant and Equipment	0	8	0	9	15	54
Expenditures for Acquisition of Intangible Fixed Assets	0	-10	-8	-4	-15	-249
Proceeds from Sales of Intangible Fixed Assets	0	0	0	0	0	0
Expenditures for Acquisition of Investment Securities	0	-76	-61	-264	-702	-2,419
Proceeds from Sales of Investment Securities	0	0	0	0	8	8
Other Investment Cash Flow	-49	-259	92	26	6	-304
Total	-294	-446	-1,641	-436	-1,153	-4,809
Cash Flows from Financing Activities						
Net Increase/Decrease in Short-Term Interest-Bearing Debt	219	1,138	46	1,526	3,126	4,367
Net Increase/Decrease in Long-Term Interest-Bearing Debt	2,013	-1,505	1,812	9,408	6,739	4,302
Share Issuance	462	2,312	0	3,568	0	10,894
Expenditures for Acquisition of Treasury Stock	0	-199	0	-321	-178	0
Dividend Payment	0	-55	-63	-132	-240	-489
Other Financing Activities Cash Flow	68	-23	400	-148	58	-661
Total	2,762	1,668	2,195	13,901	9,505	18,413
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	-4	0	10	79	4
Increase in Cash and Cash Equivalents	-34	1,503	1,527	1,786	502	5,163
Cash and Cash Equivalents at Beginning of Period	606	572	2,075	3,603	5,390	5,893
Impact of Changes in Scope of Consolidation	0	0	0	0	0	0
Cash and Cash Equivalents at End of Period	572	2,075	3,603	5,390	5,893	11,056
Free Cash Flow	-2,796	-161	-669	-12,125	-9,081	-13,255

Source: Company Data. Compiled by Strategy Advisors

Figure 62. Stock Price & Capital Efficiency Indicators

FY	8/19	8/20	8/21	8/22	8/23	8/24
EPS (¥)	81.7	21.7	121.4	132.9	253.2	541.7
BPS (¥)	282.5	609.2	725.6	1,142.6	1,351.4	2,729.2
Dividend Per Share (¥)	10.0	10.0	20.0	30.0	60.0	170.0
Dividend Payout Ratio	12.2%	46.0%	16.5%	22.6%	23.7%	31.4%
Closing Price (¥)	1,415.5	1,895	2,130	3,005	5,220	14,950
PER (Times)	17.3	87.2	17.5	22.6	20.6	27.6
PBR (Times)	5.0	3.1	2.9	2.6	3.9	5.5
Number of Shares Issued at End of Period ('000)	5,510	6,413	6,669	8,156	8,195	9,860
Treasury Stock ('000 of Shares)	0	76	10	107	19	21
Number of Treasury Stocks Excluded ('000 of Shares)	5,510	6,337	6,659	8,049	8,176	9,839
Average Number of Shares During the Period ('000 of Shares)	5,326	6,187	6,534	7,666	8,098	9,267
Market Capitalization (After Adjusting for Treasury Shares)	7,799	12,009	14,184	24,187	42,679	147,093
Equity Ratio	22.4	45.7	32.1	30.2	25.2	34.6
Net Interest-Bearing Debt Balance	3,781	1,795	3,897	13,012	22,386	30,824
D/E Ratio	2.4	0.5	1.5	2.0	2.5	1.5
Net Interest-Bearing Debt	3,781	1,795	3,897	13,012	22,386	30,824
EV (Enterprise Value)	11,580	13,804	18,081	37,199	65,065	177,917
EBITDA	840	474	1,527	2,410	4,742	9,073
EV/EBIDA Multiple	13.8	29.1	11.8	15.4	13.7	19.6
ROE	28.0%	5.0%	18.2%	14.5%	20.2%	26.5%
ROIC	NM	21.3%	21.4%	9.3%	10.2%	13.2%
Number of Employees	38	100	108	140	190	277

Source: Company Data. Compiled by Strategy Advisors

Figure 63. Quarterly Income Statement

(¥ mn)

FY	8/23				8/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales	7,475	9,014	1,974	18,819	12,094	8,723	12,778	32,090
Cost of Sales	5,962	6,605	941	13,675	9,482	5,039	8,711	23,893
Gross Profit	1,512	2,410	1,032	5,145	2,611	3,685	4,066	8,197
Gross Profit Margin	20.2%	26.7%	52.3%	27.3%	21.6%	42.2%	31.8%	25.5%
SG&A Expenses	1,179	1,305	1,427	1,745	1,958	2,346	2,415	3,303
Sales to SG&A Expenses Ratio	15.8%	14.5%	72.3%	9.3%	16.2%	26.9%	18.9%	10.3%
Operating Income	332	1,106	-395	3,399	652	1,339	1,652	4,894
Operating Income Margin	4.4%	12.3%	-20.0%	18.1%	5.4%	15.4%	12.9%	15.3%
Non-Operating Balance	-95	-75	36	-189	-259	207	271	-897
Financial Account	-66	-64	-84	-153	-132	-126	-170	-234
Exchange Gains & Losses	-1	31	152	0	-53	381	548	-569
Others	-28	-42	-32	-36	-74	-48	-107	-94
Ordinary Income	238	1,030	-359	3,210	393	1,547	1,921	3,999
Ordinary Income Margin	3.2%	11.4%	-18.2%	17.1%	3.2%	17.7%	15.0%	12.5%
Extraordinary Income	24	7	0	14	19	237	8	234
Extraordinary Loss	0	0	0	191	0	0	0	312
Extraordinary Items (Net)	24	7	0	-177	19	237	8	-78
Pretax Profit	262	1,037	-359	3,033	413	1,783	1,929	3,920
Total Income Taxes	111	373	-94	1,097	157	653	470	1,347
(Corporate Tax Rate)	42.4%	36.0%	26.2%	36.2%	38.0%	36.6%	24.4%	34.4%
Net Income Attributable to Owners of Parent	155	661	-271	1,505	224	1,068	1,335	2,393
Net Income Margin	2.1%	7.3%	-13.7%	8.0%	1.9%	12.2%	10.4%	7.5%

Source: Company Data. Compiled by Strategy Advisors

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